Alpha-Win Company Research Report

PCA
(9629 TSE First Section) Issued: 12/18/2018

Research Dept., Alpha-Win Capital Inc.
http://www.awincap.com/

● Summary

Business Description

・PCA CORPORATION (hereinafter "the Company") is an independent software manufacturer specialized in packaged enterprise system software. It is a major specialized player in the industry.

・The Company was founded in 1980. Since then, it has been providing on-premises or cloud-based software mainly to small- and medium-sized companies. The Company's mission is to contribute to society as a "management-supporting company" that supports the smooth management and operation of other companies mainly through the provision of enterprise system software that realizes high-level automatization.

Current Financial Results

・The Company is sharply recovering from a period of decreasing revenue, decreasing profit, and postings of losses. In H1 of FY 2019, sales increased by 9.9% YOY and operating profit decreased by 44.1% YOY. In addition to the sales for the highly profitable cloud business, sales for the labor management system and the solutions business also increased. Meanwhile, profit decreased due to upfront investment costs associated with new product development. However, both sales and profit beat the Company's unofficial H1 targets.

・The Company has kept its initial forecasts for FY 2019. It plans to increase sales by 7.2% YOY (Y10,486 mil) and operating profit by 2.2% YOY (Y825 mil). Businesses such as the cloud and the labor management system are expected to continue to drive growth, leading to increased sales and profit for the fourth consecutive year. However, operating profit growth rate is expected to be small due to strategic upfront investment cost.

Competitiveness

・The Company has a customer base of approximately 200,000 companies and is marked by its high brand recognition and top-ranking market share in the fields of accounting and finance for small/medium-sized companies. The Company's cloud-based enterprise system software business in these fields is especially strong, ranking No. 1 in the industry as a pioneer of the business. The strengths of the Company are its ability to develop products and services that meet various customer needs including those related to changes in tax and other regulations, its stable customer base, and its ability to provide high-quality products and services at reasonable prices.

Business Strategy

・As the basic business strategy for its corporate group, the Company aims to create a strong earnings base for its main businesses (reinforce and increase sales of PCA Cloud and strengthen the on-premises business), create new business opportunities, and strengthen the management system to become a highly profitable company.

・In the medium-term business plan announced by the new president, numerical targets for the final FY, or FY 2022, were set out as follows: Y11.5 bil or greater for sales (of which the sales for the subscription-based businesses are targeted to be Y6 bil), Y1.5 bil or greater for operating profit, and 10% or greater for operating margin (all consolidated figures).

Forecast on Financial Results

・Upon evaluating the H1 results and H2 situation, Alpha-Win Research Dept. has judged that the Company's FY 2019 forecasts for sales and profits are conservative and has made an upward revision. Over the medium to long term, although there will be upfront costs for investments such as business expansion and the strengthening of organizational structure, we believe that sales and profits will generally continue to increase, judging from how the cloud business is in a phase of continuous growth, if the effects of event-driven high demand (both before and after the event) are evened out.

Stock Price

・Stock price is strong, with an annual high recorded in December. Comparing valuation indicators with the average of the First Section of the TSE, the Company's P/E, dividend yield, and P/B are slightly on the high side. However, compared to its competitors, it has an undervalued impression regarding most valuation indicators.

Shareholder Return

・To date, the Company has followed a stable dividend policy. When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield increases to 2.5%. The Company plans to continue to enhance shareholder return and improve the EPS while making stable dividend payments at a dividend payout ratio of about 30%.

【 9629 PCA Sector: Information & Communication 】 Figure A

FY		Sales (Y mil)	YOY (%)	O.P. (Y mil)	YOY (%)	R.P. (Y mil)	YOY (%)	N.P. (Y mil)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2016		8,440	3.3	40	-	66	-	-93	-	-13.70	1,567.18	31.0
2017		9,360	10.9	432	957.9	463	593.6	160	-	23.49	1,568.59	31.0
2018		9,785	4.5	807	86.8	834	79.9	441	174.1	64.37	1,644.39	31.0
2019	CE	10,486	7.2	825	2.2	842	0.9	588	33.5	85.95	-	31.0
2019	E	10,600	8.3	875	8.4	900	7.9	620	40.6	90.51	1,704.11	31.0
2020	E	11,300	6.6	1,200	37.1	1,220	35.6	836	34.8	122.06	1,795.41	31.0
2021	E	10,500	-7.1	830	-30.8	850	-30.3	582	-30.4	84.98	1,849.66	31.0
2018	Q2	4,473	7.7	436	222.4	459	190.2	107	-10.9	15.63	1,597.74	-
2019	Q2	4,917	9.9	244	-44.1	268	-41.7	196	83.0	28.61	1,699.55	-

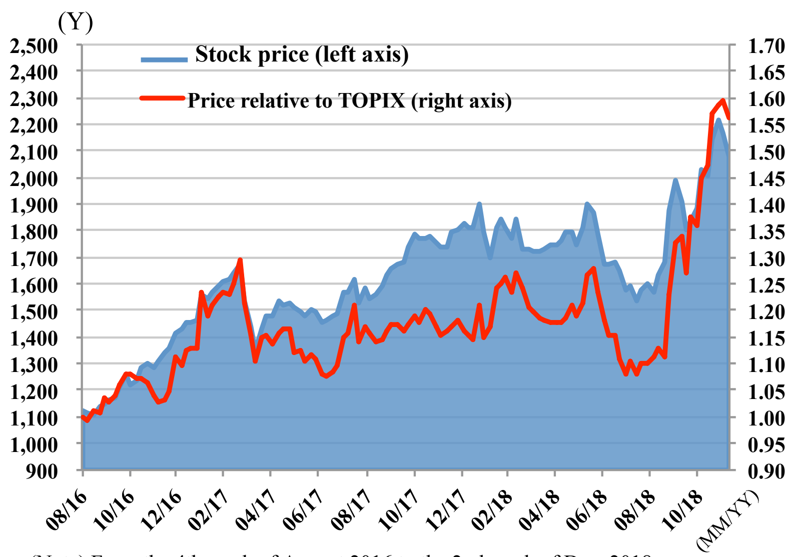
(Note) CE = the Company's estimate; E = estimate by Alpha-Win Research Dept. Q2 = cumulative through the second quarter. All fiscal years discussed in this document are March-ending.

【 Stock Price and Valuation Indicators: 9629 PCA 】 Figure B

Item	as of 12/14/2018	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	2,079	Last FY (actual)	32.3	1.3	1.5%	48.2%
Shares Outstanding (thou.)	7,700	This FY (est.)	23.0	1.2	1.5%	34.3%
Market Capitalization (Y mil)	16,008	Next FY (est.)	17.0	1.1	1.5%	25.4%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	65.0%	Last FY's ROE		3.9%

(Note) Estimates were made by Alpha-Win Research Dept.

【Stock Chart (end-of-week prices) : 9629 PCA】 Figure C



(Note) From the 4th week of August 2016 to the 2nd week of Dec. 2018

【Performance】		
Period	Return	vs. TOPIX
1 month	-6.1%	-1.5%
3 months	11.1%	26.9%
6 months	16.2%	26.5%
12 months	15.5%	32.0%

(Note) Stock price and index values as of 12/14/2018. Prepared by Alpha-Win Research Dept.

Contents

(Note) Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of the Report.

1. Company Overview

- **Major specialized player in the industry with 38 years of practice, developing and providing packaged enterprise system software for small/medium-sized companies**

◆ Major Specialized Player in the Enterprise System Software Industry

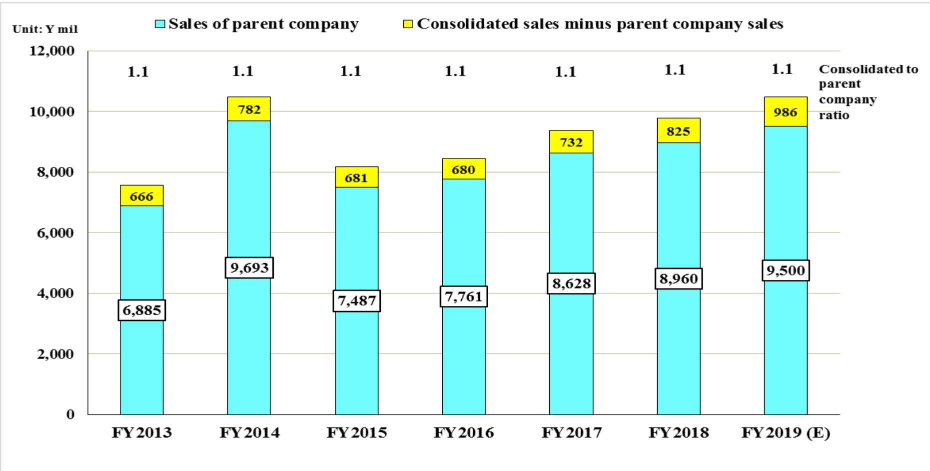
PCA CORPORATION (hereinafter "the Company") is an independent, mid-tier, specialized company in the software industry. The Company is a specialist in developing and selling packaged software (software prepared for use in certain operations) for enterprise systems[1], such as those for accounting and tax. It is a major player as a specialist of such software for small/medium-sized companies. About 200,000 companies are active users of the Company's products, with sales for ordinary companies comprising greater than 90% of total sales. With regards to the size of the customer companies, the Company is especially good at business toward small/medium-sized companies with 50 to 100 staff. 80% of the Company's sales are via dealers (the remaining 20% are direct sales). It has the largest transaction with the dealer RICOH (sells the Company's software along with its own hardware such as office appliances), which contributes to about 18% of the Company's total sales. The Company's customers are diversified, with major companies as its largest customers by monetary value. The Company ranks No. 1 in the industry in software for public benefit corporations, having installed software in over 8,000 corporations.

(1) Enterprise system: a part of a company's information system that deals with matters directly affecting business, such as financial accounting, production control, sales and inventory control, purchases, HR, and payroll. A general term for back-office applications. Also called the mission-critical system, it serves as an important core system for operations/services.

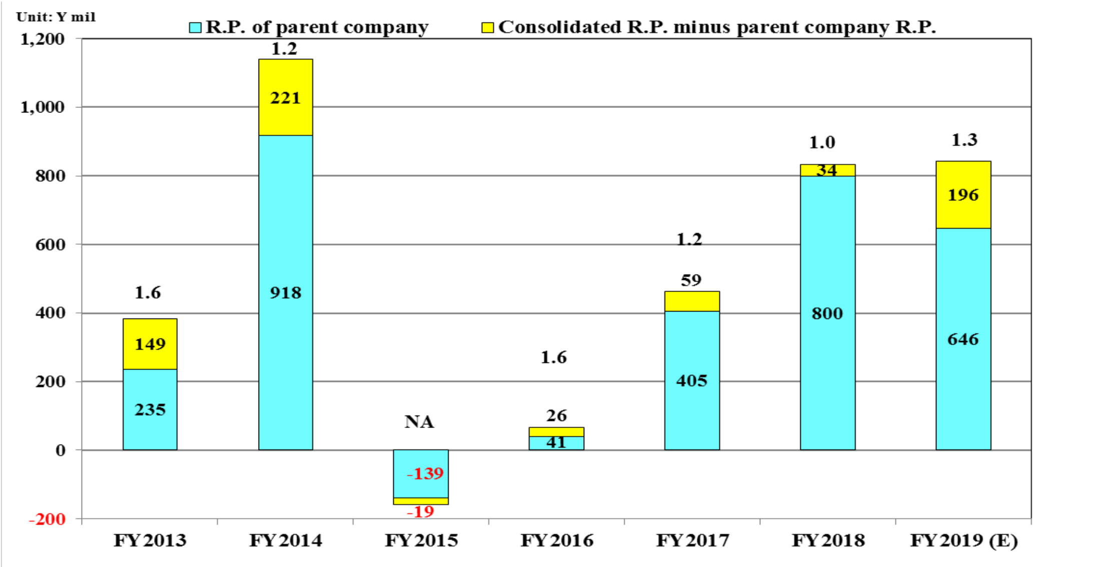
- **The Group is comprised of the Company and 3 subsidiaries. Consolidated to parent company sales ratio has stayed around 1.1.**
- **The Company's fiscal year ends in March (e.g. FY 2019 ends in March 2019).**

The Company's group is made of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of labor management system and time recorders; 80% of shares owned by the Company), KEC Corporation (installation guidance, operation, maintenance, and other services for PCA products/services; wholly owned by the Company), and MACS System Corporation (development/sales of computer software for medical office use such as electronic medical records; 80% of shares owned by the Company). The ratio of consolidated to parent company sales has stably remained around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1). Although the subsidiaries' profits and losses are not disclosed, during the past seven years, the ratios of consolidated to parent company recurring profit were in the range of 1.0-1.6 for the fiscal years that the Company was in the black (including this fiscal year's forecast). Additionally, the summed profit and loss of the three subsidiaries, calculated by consolidated minus parent company recurring profit, indicate a surplus (Figure 2).

[Figure 1] Ratio of Consolidated to Parent Company Sales (ratios shown on upper portion of graph)



[Figure 2] Ratio of Consolidated to Parent Company Recurring Profit (ratios shown on upper portion of graph)



(Ref) Figures 1 and 2 were both prepared by Alpha-Win Research Dept. based on the securities report. Estimates (E) are from the Company's business plan.

- **Founded by Certified Public Accountants in 1980**
- **Rich in cash and debt-less**

The name of the Company comes from the five founders who were Certified Public Accountants (CPA); the letters CPA were shuffled into the meaningful name **P (Professional) C (Computer) A (Automation)**.

The Company's finance is firm, rich in cash and debt-less. Considering that its total asset is Y17.8 billion and market capitalization is approximately Y14.4 billion, it has ample cash and deposits (Y6.9 billion). Its financial ratios, such as its equity ratio of 65% and current ratio of 278%, are also very sound (all values are as of the end of Sept. 2018).

- **The Group's basic business policy is to "aim for a more rational business with clear vision."**
- **The mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation."**

◆ Business Philosophy

The Company's business philosophy was announced as "customer-first" when it made its first public offering in March 1994. Then, in 2010, the Company laid out the three key ideas of the its business philosophy and 34 rules for the code of conduct and announced that the basic business policy for its corporate group is to "aim for a more rational business with clear vision."

The Company's mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation." While its corporate culture is down-to-earth and homely, the Company is also a pioneer in the conservative industry, conducting R&D and launching new products ahead of its competitors.

The following are the three key ideas of the Company's business philosophy:
1) We will always make our best effort to be customer-first.
2) We will aspire to become a highly profitable company over the long term with sound management.
3) We will treat our employees like family members and create a company with a homely culture.

2. Business Description and Business Model

- **Enterprise systems are mission-critical. Stability and reliability are critical elements since they are used inside a company.**

◆ Enterprise System Software Necessary for Efficient Business

The Company's main business is enterprise systems that support internal business operations. Unlike systems that simply work on personal computers, an enterprise system is a computer system that supports a series of processes throughout all business operation flows in a company. Since it is mission-critical for business operations, it is required to be reliable, efficient, stable, user-friendly, safe, and expandable.

The main ways for building an enterprise system are by package-based system development and by original system development. Generally, the method of taking packaged software that are already sold and combining them into a system has advantages such as short development time, cheapness, and having relatively few bugs. On the other hand, as a disadvantage, it is hard to customize the system to a company's business conditions, operations, management styles, and other specific needs.

For original software development and installment, outsourced development and in-house development are the two options. In either case, the advantage of an original system is that it is user-friendly since it can be customized to a company's needs and operations. However, development cost and time are larger and longer, and it continues to need revisions, addition of functions, and maintenance after installment. Especially for micro-, small-, and medium-sized companies, the development, installment, and operation of original software are not easy due to financial, staff, and time constraints.

In response to these needs, the Company has been developing original enterprise system software that especially meets the needs of individuals or micro (SOHO)-, small-, and medium-sized companies in areas such as accounting[2], finance, HR and payroll[3], sales management, purchasing and inventory management, tax, and medical and medical office work. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate customer) or cloud-based (a service where the corporate customer can operate the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The enterprise system software is sold and distributed by direct or indirect methods.

(2) Accounting software: application software for recording, processing, and managing accounting data in an integrated way

(3) HR and payroll software: software for payroll calculations and HR management

Additionally, the Company has not only been developing and selling enterprise system software but has also been expanding its business by providing consulting services based on solution proposals. With its subsidiaries, the Company has also been providing various support services such as maintenance service and installation/operation support. Going forward, these businesses are to be further strengthened.

- **Provides about 16 types of originally developed packaged enterprise system software**
- **About 70% of sales come from original products and services**

◆ Business Model with High Continuity and Marginal Profit Ratio

The Company's business model is based on a mass production of a few types of products, providing about 16 types of software. Due to the nature of its business, its marginal profit ratio is high. Its original products and services (products/maintenance/cloud) account for greater than 70% of total sales, while the remaining 30% are from other companies' products (purchased goods) included in the goods/other categories (Figure 3).

From developing to selling a new product, approximately two years and corresponding amount of cost are necessary per product. Version upgrades (revision updates) are released usually in a one- to two-year cycle, although this cycle is reconsidered as needed. In fact, in recent years, software functions have become so enhanced that the customers' purchasing in response to this version upgrade cycle seems to be slowing down.

Since these types of software are related to operations that require high reliability, and since software replacements give rise to issues of cost, labor, and data continuity, their users have little interest in actively or frequently replacing their current software with an alternative of a different company. Therefore, customer loyalty is high, and contracts have high repeat rates (50% to 90% or greater depending on the type of software). The barrier to market entry is high because trust and brand recognition are a must in this industry and its companies are currently mostly able to exist alongside one another by taking strong positions in different niches.

◆Expansion of Highly Stable and Profitable Subscription-Based Businesses

Until FY 2016, sales and profit and loss were disclosed for the four business segments: "for ordinary companies," "for non-profit organizations," "medical," and "cloud." In FY 2017, all business segments became consolidated. Sales are now disclosed for fives sales types (categories): "products," "goods," "maintenance service," "cloud service," and "other operating revenue" (also called "solutions") (Figure 3). Profit and loss by segment are no longer disclosed.

[Figure 3] Sales Classification by Type

Sales Classification by Type	Detail	FY 2018 (actual)		
		Sales (Y mil)	% of Total Sales	Est. Gross Margin
Products	Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades)	1,954	20.0	approx. 40%
Goods	Sales of other companies' products such as business forms	988	10.1	approx. 40%
Maintenance Service	By signing up to PSS membership, one can receive inquiry and support services from call centers	3,109	31.8	80-90%
Cloud Service	Subscription service for software provided via the cloud	1,854	18.9	60-70%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	1,878	19.2	approx. 25%
Total & Average		9,785		54.5%

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and interviews. Includes estimated values.

- **Subscription-based maintenance and cloud businesses ("stock businesses") account for about 50% of the total sales.**

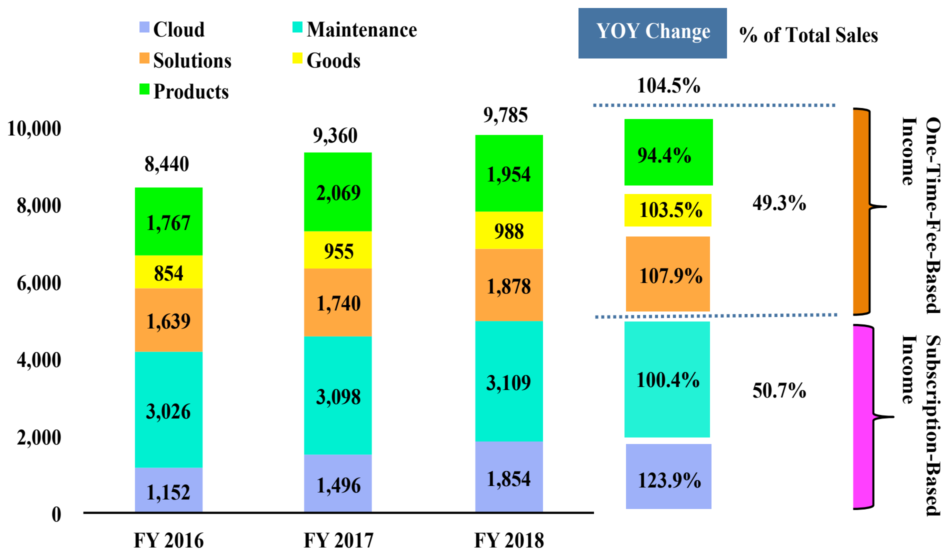
During FY 2018, the maintenance service had the greatest sales (Figure 3 and Figure 4), serving as a stable source of profit. In recent years, sales of the cloud service for packaged software have largely grown. The cloud service is becoming a growth driver for the entire company with regards to both sales and profits. Subscription-based revenue, which is the sum of the maintenance service and the cloud service, accounts for greater than 50% of total sales, contributing to greater stability in management and profit. Both the maintenance service and the cloud service have a high gross margin and continuity.

On a consolidated basis, sales breakdown by software operation type is not disclosed. However, sales seem to be diversified, with sales for "accounting software" predicted to be the largest by composition (about 15% of total sales), followed by "sales management and purchase & inventory management," and then by "payroll and HR" ("other including cloud" comprises greater than 50% of total sales).

◆ **Shifting from sales-based to profit-based internal management of financial performance and goals**

Currently, as the Company's primary internal management target, goals are set for software sales (or the sold number of products) by operation type. Profit and loss by software operation type are not targets of management. However, going forward, the Company will develop and establish a performance management indicator for each internal organizational unit, etc., and make a transition from sales-based management to profit-based management. The Company has commented that the profit/loss values for each software operation type are not greatly different from one another, but the main accounting software business is assumed to be generally highly profitable. Meanwhile, the business for medical software and related products, which was started at a later stage, is thought to be less profitable than other software due to upfront investment costs such as marketing and development expenses (past disclosures indicate posting of a loss for this business, but currently no information is disclosed). The percentage of new software sales or version upgrade sales in the total sales changes every year, but the percentage of version upgrades is always greater than 50%. As a side note, the Company's on-premises tend to be installed and used by users on a single PC (stand-alone).

[Figure 4] Change in Sales and Sales Breakdown (unit: Y mil, %)



(Ref) Excerpt from the Company's financial results briefing and supplemental materials, reworked by Alpha-Win Research Dept.

◆ Cloud Business as a Growth Driver

◆ **Shifting from packaged to cloud-based software**

◆ **Drastic growth of the cloud: awakening of the sleeping beast PCA**

Until recently, the Company had focused its business on conventional packaged software, also known as on-premises. However, as the Internet became more sophisticated and more widely used, the Company expected that demands for the cloud would become greater due to its usability and cost performance. Therefore, since 2008, the Company has been providing on the cloud the same software as the on-premises, more than ten years ahead of its competitors. This cloud business, where customers pay fees continuously for a certain period of time to use the software, is attractive as a stable, subscription-based business model, similar to the maintenance service. The Company has lately been focusing its business on the cloud service, and the number of contracts as well as sales has been growing steadily (Figure 5). As the cost of this cloud business is nearly fixed, with small variable costs such as those related to manufacturing, selling, and logistics, this business has a high marginal profit ratio.

- **The rapidly growing cloud is based on a subscription-based, stable business model. Taking a lead in the industry, the Company has a competitive advantage.**

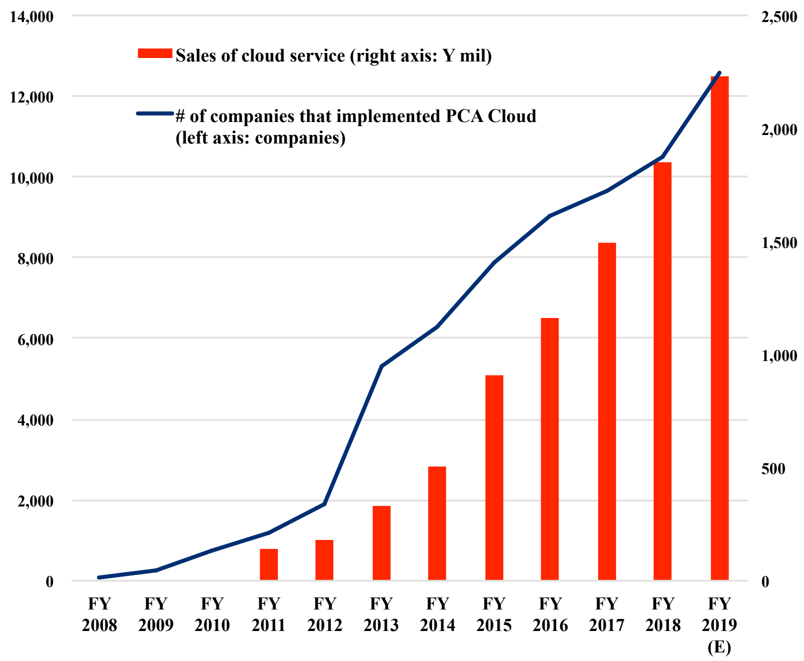
The Company leads the industry as No. 1 in cloud-based enterprise system software for small/medium-sized companies. The following advantages make the Company stand out from its competitors. Its competitors have also begun their full-scale entry into the cloud market in recent years (2017-2018) as their first year of cloud, but the Company is expected to stay advantageous for the meantime.

- Providing a wide variety of advanced software for business operations
- Originally-developed open architecture and low cost
- Economies of scale are in effect, with more than 11,000 companies already using cloud as customers, contributing to the Company's profit
- Consequently, it has a strong price advantage compared to its competitors
- Ten years' worth of operation know-how
- User-friendly, with WebAPI[4] allowing linkage with other companies' cloud (already linked with about 60 companies, including Kintone[5] of Cybozu)

(4) API (Application Programming Interface): interface/network to operate software; connects the software and the program.

(5) Kintone: cloud service for building business app on web database, provided by Cybozu. Allows easy system build-up and linkage with other systems.

[Figure 5] Transition in the Number of Companies that Implemented PCA Cloud and Sales of PCA Cloud



(Note) Sales for FY 2008 to FY 2010 have not been disclosed.

(Ref) Prepared by Alpha-Win Research Dept. using information including those from the Company's financial results briefing materials and interviews. (E) represents estimates made by Alpha-Win Research Dept.

3. Shareholder Composition

◆ Major Shareholder Composition

- **No change in the top shareholders. New shareholders for the eighth and tenth place under the name of trust banks.**
- **The largest shareholder is an asset management company of the founder's family. OBC, its rival, is also a major shareholder.**

Major shareholders as of the end of September 2018 are shown on Figure 6. Compared to the end of March 2018, the composition has not largely changed. Two trust banks newly replaced KBL PB 7704 (assumed to be an European investment fund) and APPLIED SYSTEM LABORATORY Inc. as the eighth and tenth largest shareholders.

・ The largest shareholder Kawashima Co., Ltd.: the asset management company of two directors of the Company (president Sato and Mr. Kumamoto) and their relatives (descendants to the founder Mr. Kawashima).

・ The second largest shareholder (excluding treasury stock; the same applies to the rest of the ranking) State Street Trust and Banking Company 505001: most likely a fund but its investors are unknown. Also invests at below 5% in several other Japanese small/mid-caps.

・ The third largest shareholder Obic Business Consultants Co., Ltd. (OBC): a competitor with no transaction with the Company. Mr. Shigefumi Wada, the fourth largest shareholder, is the current president of OBC. In either case, their purposes are unknown.

・ The sixth largest shareholder Mizuho Bank, Ltd.: probably for the purpose of cross-shareholding.

・ The seventh largest shareholder Logic Systems Co., Ltd.: unknown purpose.

・ The ninth largest shareholder Nagoya PCA Co., Ltd.: the company to which software development (SHOKON and other products of the Company) is outsourced.

[Figure 6] Major Shareholders' Status

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report.
Note: the official English name could not be verified for some.

Unit: thou. shares %

	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Sept. 2018	% of Total Shares	Ranking
Kawashima Co., Ltd.	—	—	2,935	2,935	2,935	42.86	1
PCA CORPORATION	848	848	848	848	848	11.01	—
State Street Trust and Banking Company 505001	244	249	266	266	266	3.89	2
Obic Business Consultants Co., Ltd.	254	254	254	254	254	3.70	3
PCA Employee Stock Ownership Plan	110	119	127	127	145	2.11	4
Shigefumi Wada (individual)	181	181	181	151	125	1.82	5
Mizuho Bank, Ltd.	121	121	121	121	121	1.76	6
Logic Systems Co., Ltd.	114	114	114	114	114	1.66	7
Trust & Custody Services Bank, Ltd. (investment trust account)					108	1.58	8
Nagoya PCA Co., Ltd.	—	100	100	100	100	1.45	9
The Master Trust Bank of Japan, Ltd. (trust account)					98	1.43	10
KBL EPB S.A. 107704	—	—	—	90			
APPLIED SYSTEM LABORATORY Inc.	—	—	86	86			
Reiko Sato (individual) Heir to the founder Mr. Kawashima	1,467	1,467	—	—			
Tomoko Kumamoto (individual) Heir to the founder Mr.Kawashima	1,467	1,467	—	—			
Hiroko Wada (individual)	358	—	—	—			
(Treasury shares)	848		848	848	849		
(% share of treasury shares)	11.02		11.1	11.1	11.0		

There has been almost no change in the amount of treasury shares for several years, accounting for about 11% of the outstanding shares. The largest shareholder Kawashima Co., Ltd. has stated that it intends to sell its shares (approx. 220,000 shares; 2.86% of the outstanding shares), which the Company plans to acquire by a tender offer. By this acquisition, the Company will possess a total of 13.9% of its own shares.

As of now, the Company has not decided on how to make use of the treasury shares in the future, but some possibilities include using a portion for director or employee remuneration, cancellation of stock, and stock-swap in a tie-up or an M&A.

5. History of Growth

- **Founded in recognition of the importance and promising future of computer and enterprise system software businesses in Japan**
- **With a pioneering spirit, became the first to begin cloud services in the industry**

(6) SaaS (Software as a Service): software where, as a service, one can use the necessary function in the necessary amount when needed; or the method of providing such service. Instead of the user installing the software, the vendor operates the software and provides the necessary function to the user via a network.

- **Changed its market from the Second to the First Section of the TSE in Dec. 2014**
- **Increased sales over the long term. No significant change in profit.**
- **Achieved record-high sales of Y10 billion in 2014 thanks to event-driven high demand.**

◆ Company History

A group of five Certified Public Accountants with the late Mr. Kawashima as its leader founded the Company in 1980 in recognition of the importance and the promising future of computer and software businesses in Japan. At first, they developed and sold business accounting software for small business computers. In 1995, in anticipation of making transition from small business computer users in the future, the Company officially began the development and marketing of packaged software for personal computers (PC). Then, with the emergence of the PC era, the Company grew thanks mainly to the following four efforts: 1) greater variety of and version upgrades for domestic packaged software, 2) expansion of the maintenance service, 3) development of the cloud business, and 4) expansion of the solutions business which includes the providing of other companies' products. Furthermore, the increased number of offices, cooperation with manufacturers and dealers, and development of a nationwide sales/support system helped rapidly expand its business. The Company is also seen as a pioneer in the rather conservative industry, as it was the first in the industry to begin providing cloud services (SaaS[6]) in 2008.

As for the three consolidated subsidiaries, KEC Corporation was founded in 1998, MACS System Corporation was made its subsidiary in 2008, and Xronos Inc. was founded in 2001.

Regarding shares, the first public offering was made in 1994. The Company was then listed on the Second Section of the TSE in 2000 and then the First Section in 2014. Upon being listed on the First Section of the TSE, the Company changed its logo to the current one.

◆ Transition in Past Financial Results

Since foundation until now, the Company has been expanding its business as a specialist in the development and marketing of enterprise system software and related businesses, as described above. The transition in financial results since its first public offering is described on Figure 7. Supplemental information on the financial results is as follows, in chronological order:

・Aside from certain periods such as the post-Lehman economic downturn and the market recoil from the high demand stimulated by revisions in tax and other regulations, the Company has generally kept increasing sales since 1994. On the other hand, no significant improvement was made in profit, being unable to maintain or raise the level of profit that it had once achieved.

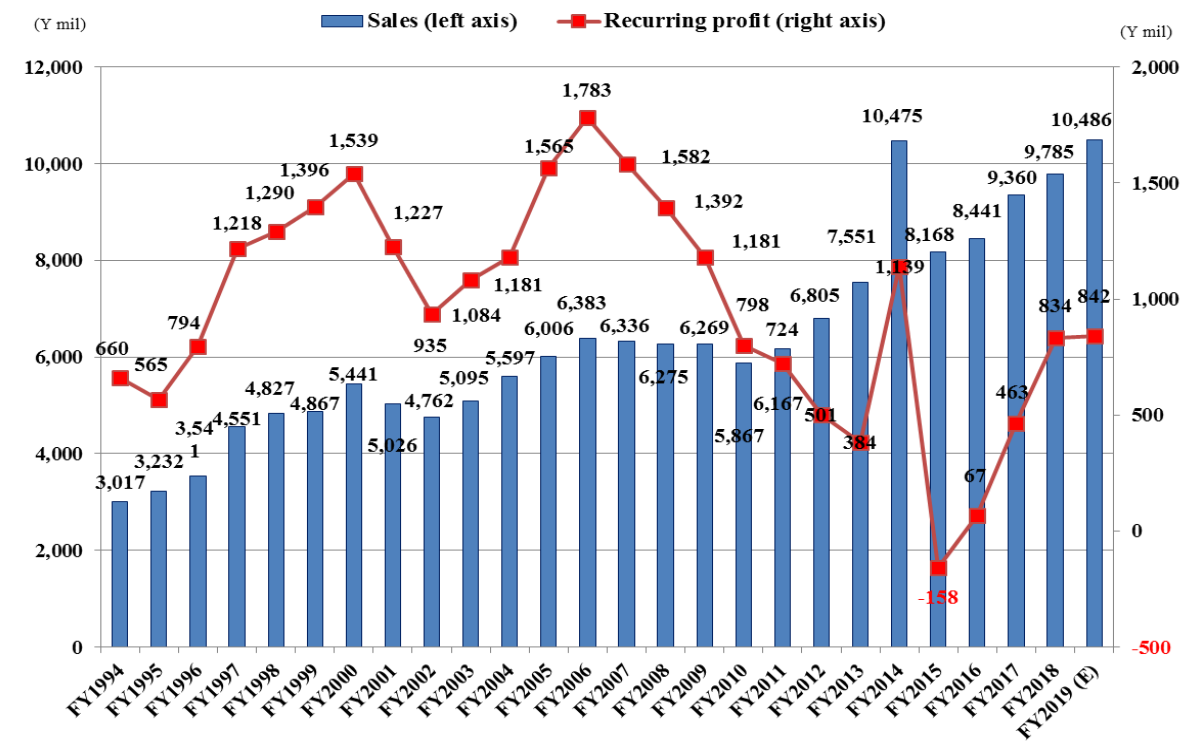
・Consecutively decreasing sales and profit from FY 2001 to FY 2002 occurred due the economic downturn and the market recoil from the high demand driven by the year 2000 problem.

・The four consecutive decreases in sales from FY 2007 to FY 2010, as well as the seven consecutive decreases in profit from FY 2007 to FY 2013, were caused by decreased demand (due to the post-Lehman economic downturn, etc.), increased HR/R&D/advertising expenses, and decreased profitability caused by intensified competition.

・In FY 2014, record-high sales (Y10,475 million) were achieved thanks to the high demand driven by two events: the termination of Windows XP support (support ended in April 2014) and the change in consumption tax (from 5% to 8% in April 2014). The large growth of the cloud service also contributed to the record-high sales.

・Decreased sales in FY 2015 is explained by the market recoil from the high demand driven by the two events as described above. Since FY 2016, the Company has been increasing its sales again thanks to the continued growth of the cloud, new products, strengthened sales force, and economic recovery.

[Figure 7] Long-Term Transitions in Financial Results



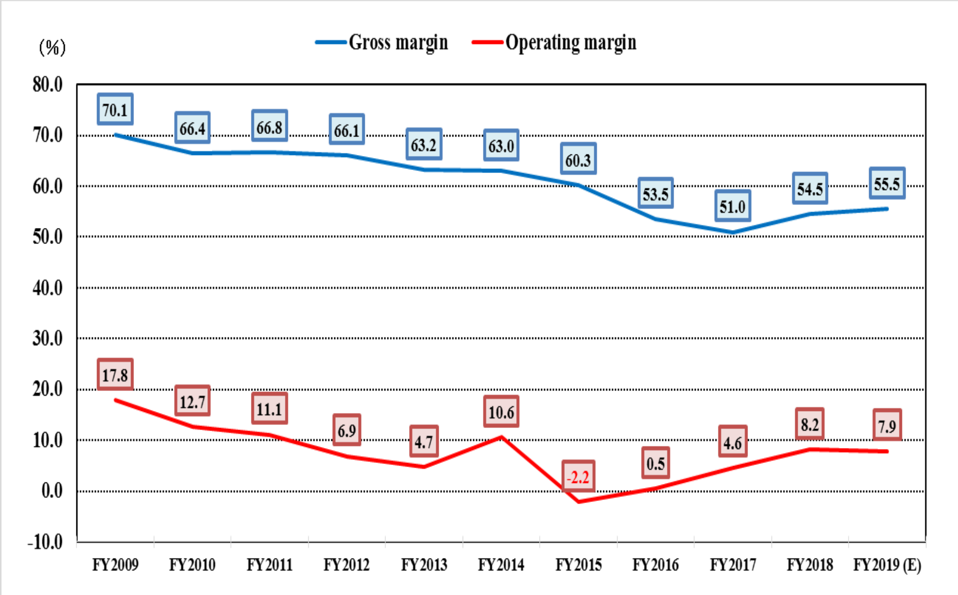
(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimate (E) for FY 2019 is from the Company's business plan.

◆ **Record-high operating profit and recurring profit in FY 2006**

With regards to earnings, record-high net profit (Y937 million) was achieved in FY 2000, having benefitted from the high demand driven by the year 2000 problem. Additionally, in FY 2006, record-highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). Demand stimulated by the revised accounting regulation for public benefit corporations and by the drastic changes caused by the new Companies Act, as well as the Company's ERP (integrated enterprise system) product Dream 21, contributed to these record-highs in 2006.

The Company's gross margin and operating margin had been gradually decreasing for a long time (Figure 8). Gross margin declined due to increased price competition from intensified competition among packaged software developers during the economic downturn, worsened product mix from a rise in the percentage of other companies' less-profitable products, and higher costs, mainly in labor costs, production expenses (subcontractor costs), and R&D costs.

[Figure 8] Long-Term Transition in Gross Margin and Operating Margin



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. FY 2019's values are estimates (E) by the Company.

- **Net loss recorded for two consecutive years in recoil from past event-driven high demand**
- **From FY 2016, began to consecutively raise sales/profit and stay in the black, thanks to new products, growth of the cloud, and cost reduction. Improved operating margin.**
- **Experiencing positive effects from the structural reform**

Despite efforts to cut down on cost, losses were consecutively recorded for the full-year results in FY 2015 and FY 2016 (net loss for the year: -Y207 million in FY 2015 and -Y93 million in FY 2016), affected by decreased sales in response to the market recoil from the event-driven high demand as described above and to the postponed revision of consumption tax to 10%.

However, since FY 2016, the Company has been increasing sales again. The decline in gross margin is starting to stop, and operating margin has bottomed out and began to gradually increase thanks to increased sales for the new products and the cloud and cost reduction. In recent years, the Company has been pushing forward with a structural reform including the disposal of excessive assets with impairment risk (real estate and securities) and shortening of software amortization, and has started to see positive effects from them. While domestic sales have been dwindling just below Y10 billion, cost reduction and sales growth of the cloud and maintenance services have led to the Company's recent success in the growth and recovery of its financial performance (Figure 8). Since FY 2017, the Company has been continuously making and increasing profit. In FY 2018, it achieved record-high sales for the third fiscal year in a row and a significant increase in profit.

◆ **Decreasing number of small/medium-sized companies (potential users) in Japan**

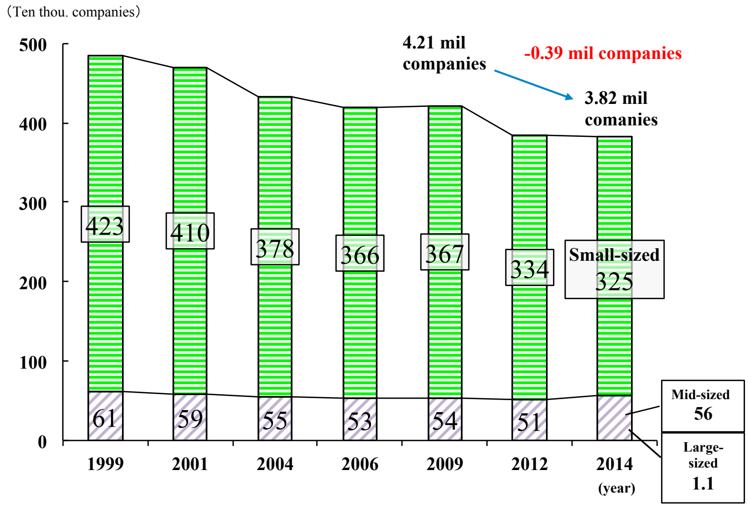
(7) Small-sized company: diff. definition by each industry, but essentially the same as "small/medium-sized companies" in staff size and sales

6. Business Environment

◆Market Trend for Enterprise System Software

The number of companies in Japan is on a downward trend, falling below four million companies (Figure 9). The number of small/medium-sized companies is especially declining because of small-sized companies[7] closing their businesses. With the decreasing population and aging society of Japan, the total number of small and medium-sized companies – the Company's customers – is not likely to experience a large increase. As a side note, the total number of companies as of June 2016 was approximately 3.87 million, slightly greater than the year 2014 by 50,000 companies (+1.3%).

[Figure 9] Change in the Number of Domestic Companies



(Ref) The "2016 Economic Census for Business Activity" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry and the "2017 White Paper on Small and Medium Enterprises in Japan" by the Small and Medium Enterprise Agency

Meanwhile, facing necessities for manpower, operational efficiency, and improved corporate financial results, companies and other corporate bodies are starting to rebuild or reinforce their enterprise systems. Alpha-Win Research Department forecasts that the size of the relevant market will steadily increase along with increasing demand for software to streamline business operations.

According to the "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2015 was approximately Y1.1 trillion and its size has been gradually increasing in recent years.

◆ **Stably growing enterprise system software market. Transitioning from on-premises to the cloud.**

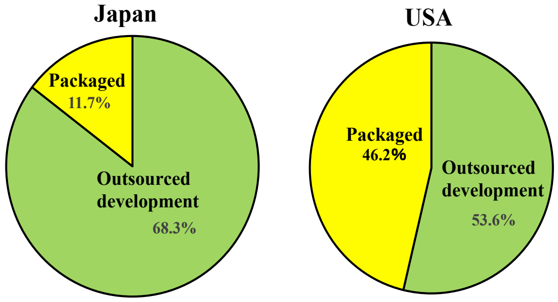
Alpha-Win Research Department estimates Japan's current market size for enterprise system software specifically related to the Company's business to be approximately Y500 billion and for ERP to be approximately Y100 billion. Annual growth rate is forecasted to be about 3% for the former and 10% for the latter over the medium term. The cloud-based enterprise system software market is expected to have an especially high annual growth rate of 20-30% over the long term, replacing a part of the packaged software (on-premises) market. In fact, compared to the U.S. where the cloud-based enterprise system software market is several years ahead of Japan, the penetration rate of such

- **Market potential for cloud-based enterprise system software in Japan continues to be great.**

system in Japan is ½ to ⅓ of that of the U.S. (ref: "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, etc.). With regards to the software development method in Japan and the U.S., outsourced development continues to be popular in Japan. In fact, the share of packaged software in Japan is about 12%, which is about a quarter of the share in the U.S. (Figure 10). Consequently, the growth potential of the packaged software market in Japan seems great (according to the year 2017 version of the "WHITE PAPER," the penetration rate of the cloud in Japan is approximately 26% in "payroll / financial accounting / HR" and only 6-8% each in "production management / logistics management / store management," "purchasing," and "sales on orders").

[Figure 10] Software Ratio in Japan and the USA

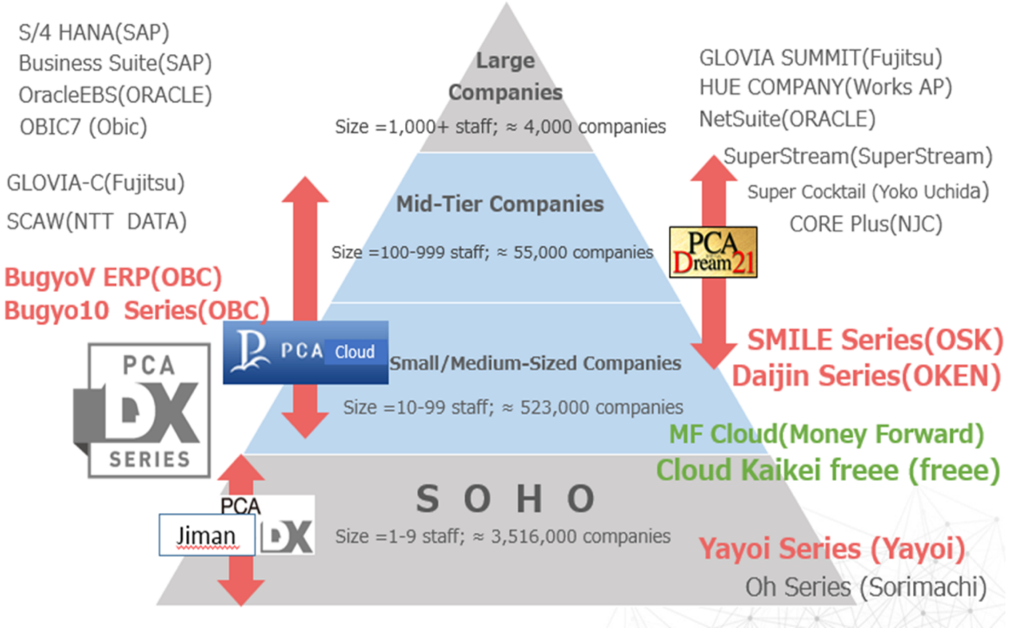
(Ref) Ministry of Internal Affairs and Communications: "Report on Current Status of Japan's ICT"



◆Comparison with Competitors

Figure 11 portrays an overview of the various positions and main players in the industry, categorized by target customer. The players in the industry are mostly able exist alongside one another by taking strong positions in different niches, segregated by the size of the company/organization that are their users or by the operation targeted by the software.

[Figure 11] Customers and Main Players of the Enterprise System Software Market



(Ref) The Company's financial results briefing material

Note: the official English name could not be verified for some.

- **Its key product, the accounting software, is third in the industry.**
- **OBC, MJS, Yayoi, and OHKEN are its rivals.**

The Company has different rivals for each type of operation targeted by the software. In general, its rivals among listed companies regarding business including its key accounting software are thought to be Obic Business Consultants (OBC: 4733), directly, and Miroku Jyoho Service (MJS: 9928), indirectly. OBC is the greatest competitor, since it has a similar product lineup and business model as the Company. Among unlisted companies, Yayoi (subsidiary of ORIX), OHKEN (independent company), and OSK (subsidiary of OTSUKA CORPORATION) are its direct competitors.

The accounting software market size is approximately Y200 billion. The market is reaching maturity and its size should not largely change. The Company is estimated to be third from the top in the market (about 10% of total market shares). The Company seems be at a similar level of market share and position for its payroll and HR software. Money Forward and freee also join in as rivals in the cloud market.

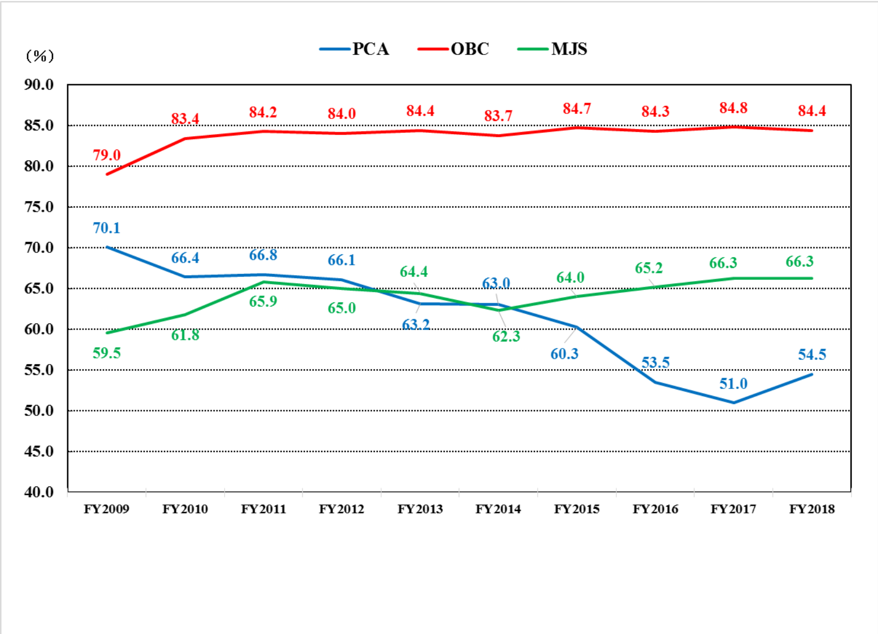
A characteristic of the Company is that it provides high quality but reasonably priced products and services to its customers.

- **Each of the profit margins have bottomed out and began to increase due to improved gross margin and cost reduction, while leaving room for improvement in profit margins and asset efficiency.**

A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown on Figures 12 and 13. Compared to the Company, both OBC and MJS's margins are stable, perhaps due to the merit of scale (the sales of both OBC and MJS are more than two times greater than the Company's, and their operating profits are about twelve times and five times greater, respectively), the difference in efficiency, and the difference in sales composition. Both companies used to have a lower proportion of users signing a contract for the maintenance support service, but succeeded in raising this ratio, leading to greater earning capacity. However, the Company's profit margins have also bottomed out in recent years, now aiming for greater earning capacity.

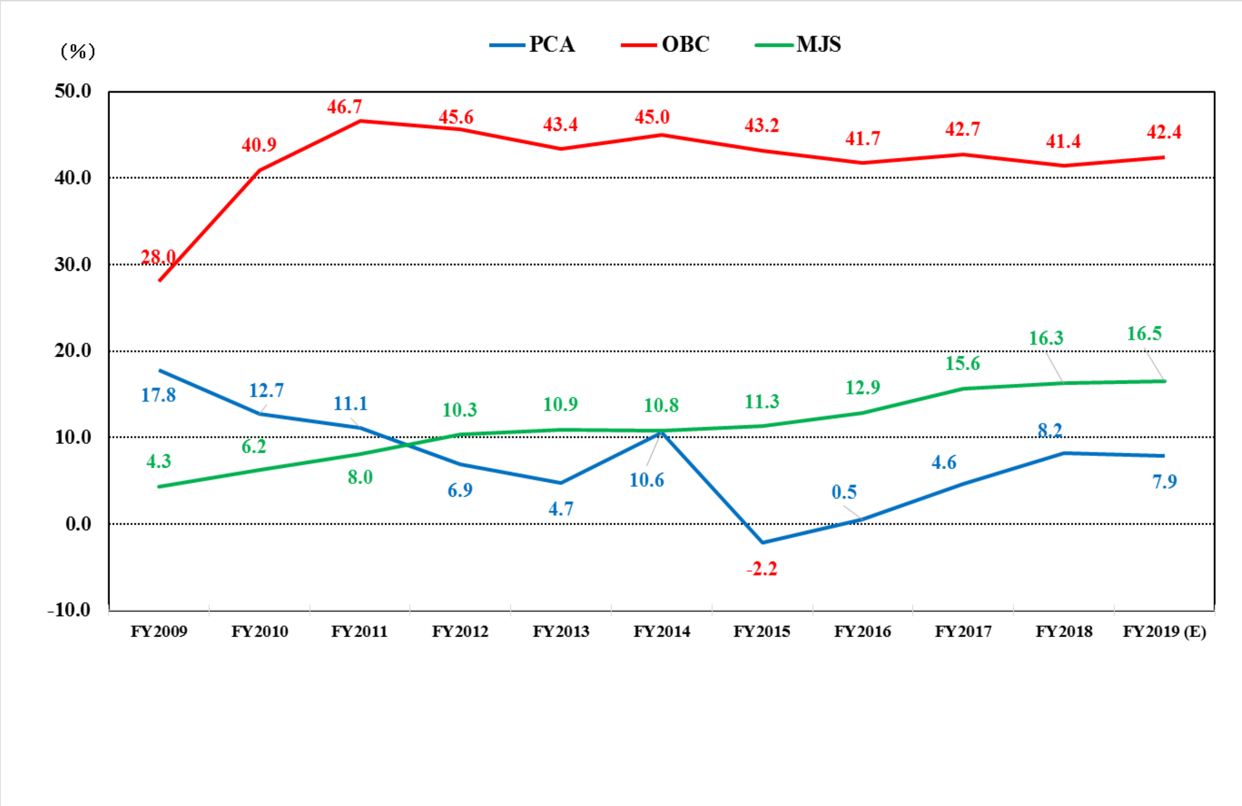
Similarly, looking at the transition in the Company's ROA and ROE on Figure 14, the Company seems to have room for improvement in earning capacity as well as asset efficiency.

[Figure 12] Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)

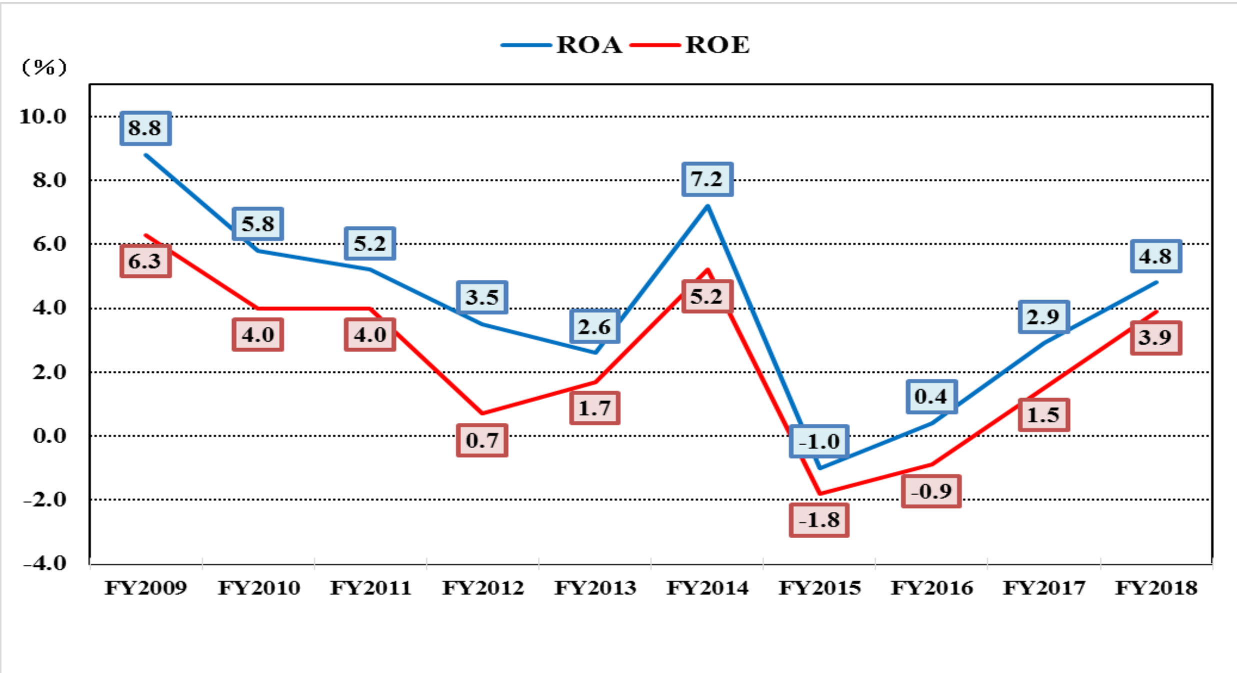


(Ref) Figures 12-14 were prepared by Alpha-Win's Research Dept. based on the securities report, and their estimates (E) are from the Company's business plan.

[Figure 13] Long-Term Transition in the Operating Margin of Three Major Listed Companies (PCA, OBC, and MJS)



[Figure 14] Transition in the Company's ROA and ROE



*ROA is the ratio of recurring profit to total assets.

6. This Fiscal Year's H1 Results and Full-Year Forecast

- **For the H1 results, sales increased for the third consecutive fiscal year and hit a record-high, but profit decreased due to development expense for the new product. However, profit did exceed the Company's target (undisclosed).**

- **The cloud was the growth driver for both the Company's sales and profits.**

(8) Labor management system: also called the attendance management system, it manages/utilizes various info on working hours. Can automatically aggregate data on working hours, etc., and prepare data to link with payroll software. Provided as on-premises or by cloud.

◆ FY 2019 Q2/H1 Financial Results

Consolidated financial results for FY 2019 Q2 (hereinafter "H1") were as follows: Y4,917 million in sales (+9.9% YOY), Y244 million in operating profit (-44.1% YOY), Y268 million in recurring profit (-41.7% YOY), and Y196 million in net profit attributable to owners of the parent (+83.0% YOY; hereinafter "net profit") (Figure 15). Overall, sales increased and profit decreased (Figure 15). The Company has not disclosed a financial result forecast for H1, explaining that since "the final target for profit will be achieved by controlling the expenses, making a forecast for the upper half is difficult." However, it did make a comment that it has beaten its initial H1 targets for both sales and profit.

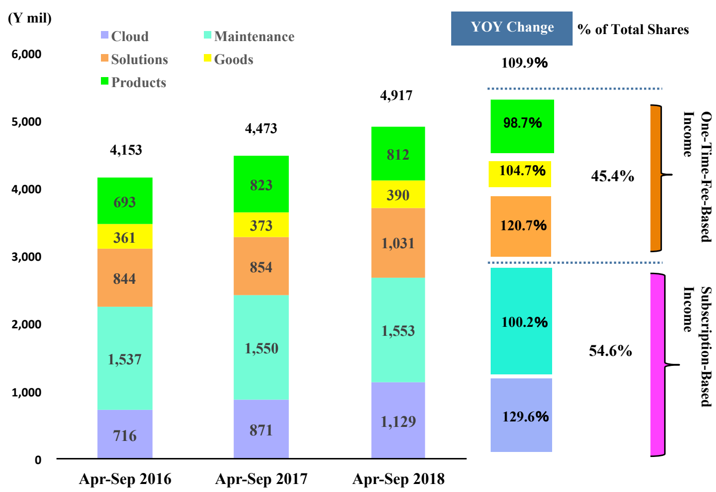
Thanks to the steady growth of the sales for the cloud and the solutions businesses, H1 sales hit an all-time-high. The number of corporate users of PCA Cloud increased by about 1,300 in nine months from 10,000 on Jan. 11, 2018, to 11,331 at the end of Sept. 2018 (net gain of about 153 companies per month). This is a fast-paced increase, since it has generally taken the Company 12 months to achieve the same increase in the past. As a result, sales for the cloud increased largely by 29.6% from Y871 million last H1 to Y1,129 million this H1. The share of sales of the subscription-based businesses (maintenance service + cloud), an important indicator for the Company, was 54.6%, having risen 3.9 points from 50.7% at the end of March 2018 (Figure 16).

Thanks in part to the Work-Style Reform, sales of the subsidiary Xronos' labor management system[8] increased by about 20%, which also led to the growth of implementation coaching fees, etc., and resulted in a 20.7% increase in sales for the solutions business. Sales for the other categories – maintenance, goods, and products – stayed about the same (Figure 17).

[Figure 15] FY 2019 H1 Financial Results (unit: Y mil, %)

Consolidated Results	Apr - Sep 2017	Apr - Sep 2018	YOY Change		FY 2019	Progress Rate
	Actual	Actual	Diff.	%	Full-Year Forecast	
Sales	4,473	4,917	444	109.9%	10,486	46.9%
Gross Profit	2,584	2,714	130	105.0%	5,822	46.6%
Gross Margin	57.8%	55.2%	–	0.0%	55.5%	
SG&A Expenses	2,147	2,470	323	115.0%	4,997	49.4%
SG&A-to-Sales Ratio	48.0%	50.2%	–	+2.2 P	47.7%	
Operating Profit	436	244	(192)	-44.0%	825	29.6%
O.P. Margin	9.7%	5.0%	–	-4.7%	7.9%	
Recurring Profit	459	268	(191)	-41.6%	842	31.8%
R.P. Margin	10.3%	5.5%	–	-4.8%	8.0%	
Net Profit Attributable to Owners of the Parent	107	196	89	183.0%	588	33.3%
N.P. Margin	2.4%	4.0%	–	1.6%	5.6%	
Net Profit Per Share	Y15.63	Y28.61	Y12.98	183.0%	Y85.95	–

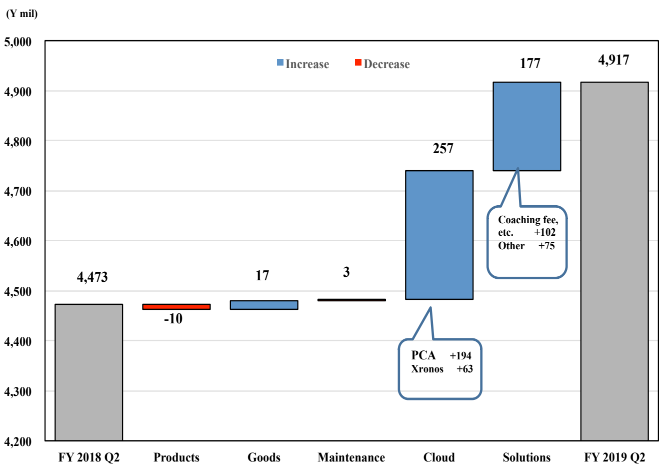
[Figure 16] Change in H1 Sales (unit: Y mil, %)



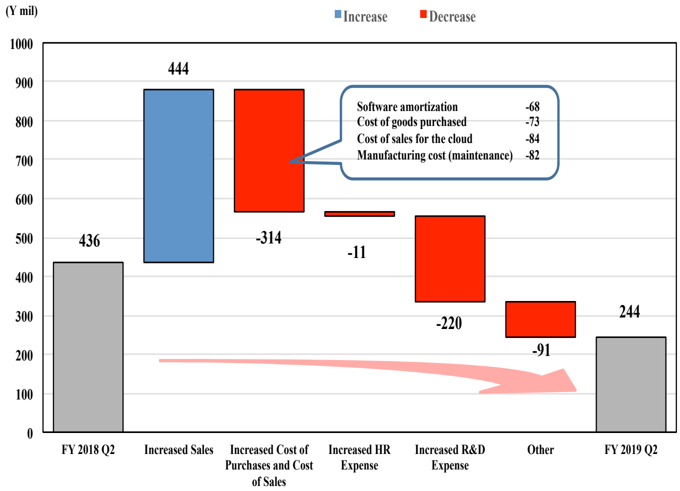
(Ref) Figures 15–18 were prepared by Alpha-Win Research Dept. based on excerpts from the FY 2019 Q2 financial results briefing materials.

Gross profit increased by 5.0% YOY, but gross margin decreased by 2.6 pts from 57.8% last H1 to 55.2% this H1 due to increased software amortization, cost of goods purchased, cost of sales for the cloud, and maintenance cost for the existing on-premises products. Increased sales for the cloud and solutions contributed to profit, but due to the additional Y220 million in R&D expense mainly for the new product Hyper (descried later), operating profit decreased by Y192 million YOY to Y244 million (Figure 18). However, since the Company sold its investment securities to improve asset efficiency, leading to an extraordinary gain of Y63 million, net profit increased by Y89 million YOY (83.0%) to Y196 million.

[Figure 17] Factors that Increased/Decreased Sales in FY 2019 H1 (unit: Y mil, %)



[Figure 18] Factors that Increased/Decreased Operating Profit in FY 2019 H1 (unit: Y mil)



◆ PCA's Financial Results Forecast for FY 2019 H2

In H2 (on a YOY comparison), the Company expects sales to increase by Y257 million (+4.8%) to Y5,569 million, operating profit to increase by Y203 million (+54.7%) to Y573 million, and net profit to increase by Y54 million (+16.2%) to Y387 million (Figure 19).

The factors that are expected to increase sales are described on Figure 20. The cloud is expected to continue to be the growth driver. The Company expects sales of the products (on-premises) to increase by Y173 million, a somewhat high estimate, in anticipation of events such as the campaign before the upward revision of consumption tax to 10%. Meanwhile, although H1 sales exceeded the target, the full-year forecast for sales has not been changed. This is because the forecast for this fiscal year's H2 sales for the solutions business has been held down at a conservative value – its sales are expected to decrease by Y125 million YOY. As for the profit, in addition to the effect of increased sales, the largest contributor is expected to be the improvement of gross profit from 51.8% last H2 to 55.7% this H2 (+3.9 pts YOY). The Company expects this improvement to occur since a little less than Y400 million's worth of software was amortized at once during last fiscal year's H2 mainly to improve the financial soundness; in consequence, this expense will largely decrease this H2. Also, the SG&A expenses are expected to increase by Y127 million YOY (5.3%) mostly because of the Y158 million increase in the R&D expense for next-generation products. The increase in sales will, however, offset this increase in expenses and maintain the SG&A-expenses-to-sales ratio at just a slight increase (Figure 21).

During H2, the Company plans to hold a campaign for the on-premises before the increase in consumption tax, provide version upgrades, and launch the new product Hyper Series[9]. In considering the launch date and the software lineup (after Feb. 2019, each type of software will be sequentially launched, starting with the accounting and fixed assets software), the actual contribution of the Hyper Series to financial results will probably start next fiscal year or later.

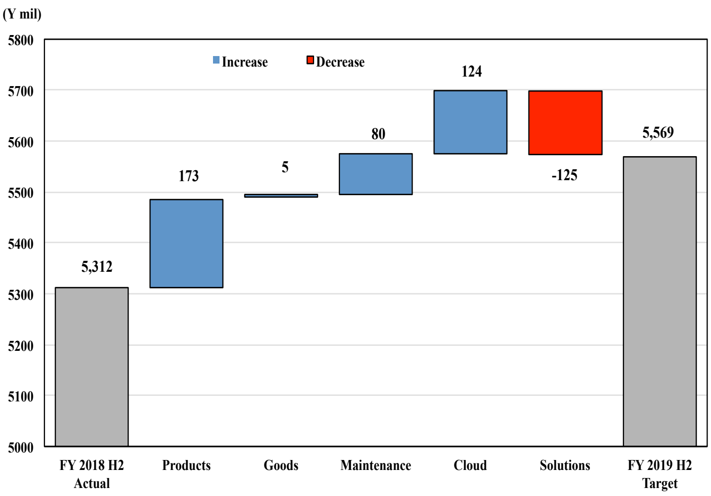
(9) PCA Hyper: a new software product for medium-sized companies as successor to Dream21. Targets the approx. 90,000 companies in Japan with sales of 1 to 10 billion yen, less than or equal to 1,000 employees, and less than 10 subsidiaries in the corporate group. A superior version of the DX Series. Its unique features are how the user can flexibly select between the on-premises and the cloud according to their stage of growth, make flexible linkage with other systems using API, and streamline data management for the entire corporate group (consolidated accounting).

[Figure 19] Financial Results Forecast for FY 2019 H2 (unit: Y mil)

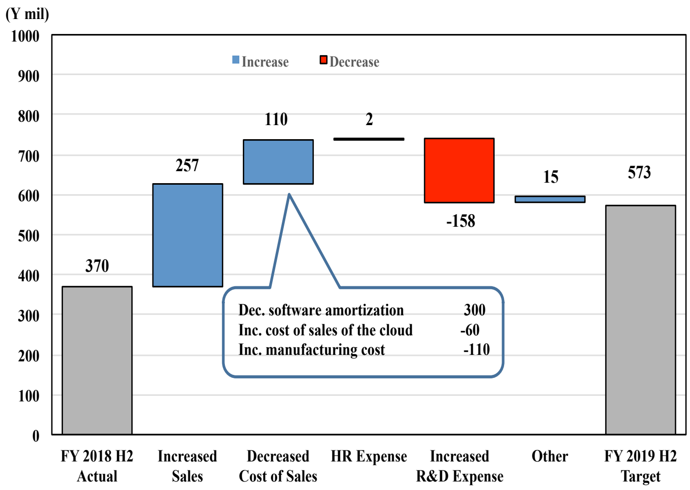
Consolidated		FY 2018 H2	FY 2019 H2	YOY Change	
		Actual	Forecast	Diff.	%
Sales		5,312	5,569	257	104.8%
Gross Profit		2,751	3,100	349	112.7%
	Gross Margin	51.8%	55.7%	–	3.9 P
SG&A Expenses		2,380	2,507	127	105.3%
	SG&A-to-Sales Ratio	44.8%	45.0%	–	0.2 P
Operating Profit		370	573	203	154.7%
	O.P. Margin	7.0%	10.3%	–	3.3 P
Recurring Profit		374	566	192	151.3%
	R.P. Margin	7.1%	10.2%	–	3.1 P
Net Profit Attributable to Owners of the Parent		333	387	54	116.2%
	N.P. Margin	6.3%	6.9%	–	0.6 P
Net Profit per Share		Y48.7	Y56.5	Y7.8	116.2%

(Ref) Figures 19-21 were prepared by Alpha-Win Research Dept. based on excerpts from the FY 2018 Q2 financial results briefing materials.

[Figure 20] Factors Expected to Increase/Decrease Sales in FY 2019 H2 (unit: Y mil)



[Figure 21] Factors Expected to Increase/Decrease Operating Profit in FY 2019 H2 (unit: Y mil)



◆ PCA's Financial Results Forecast for FY 2019 Full Year

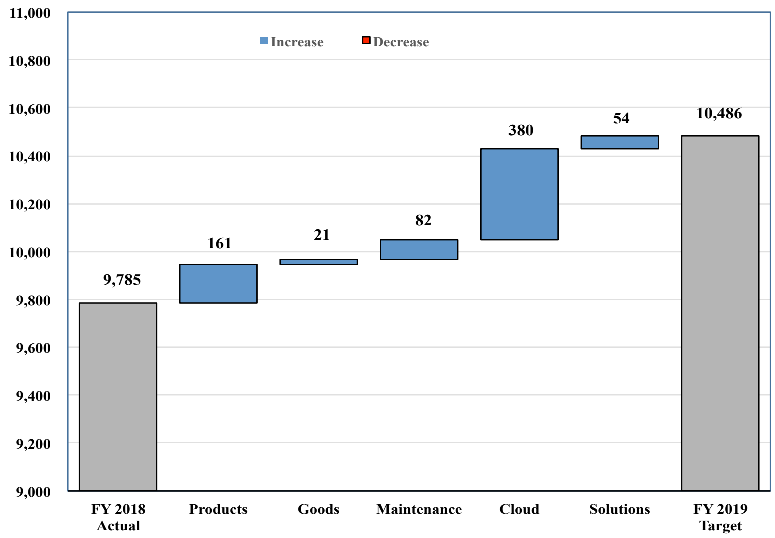
- **The Company keeps the initial forecast for this FY. It expects increased sales and profit for the 4th consecutive year due to the sales of the cloud and maintenance. For sales, a record-high is also expected for the full year.**

- **Due to upfront investment, O.P. and R.P. growth rates will be small. However, with the extraordinary gain, net profit is expected to increase by 30%.**

Although H1 results were great, the Company did not revise its initial financial results forecast for FY 2019 made at the beginning of the fiscal year since it believes that in order to make a revision it would need a clearer view of the Q4 results, which contributes to a large portion of the full-year results. Indeed, the simple average for the share of Q4 (January through March) in the full-year financial results for the past 13 years was 30.7% for sales and 30.4% for operating profit. The initial forecast, which the Company keeps, is as follows: Y10,486 million in sales (+7.2% YOY), Y825 million in operating profit (+2.2% YOY), Y842 million in recurring profit (+0.9% YOY), and Y588 million in net profit for the year (+33.5% YOY).

The Company aims to increase sales in all categories (by type), by +Y701 million in total. The breakdown of this sales increase in descending order is as follows: Y380 million by "cloud services" (+20.5% YOY), Y161 million by "products" (+8.2% YOY), and Y82 million by "maintenance service" (+2.6% YOY) (Figure 22). The Company expects sales to increase due to continued growth of the cloud service (especially the accounting software) and the labor management software (categorized under "products" and "cloud services"; managed by the subsidiary Xronos), high demand for the products driven by early-bird campaigns planned to be held prior to the consumption tax revision, and new products (will launch the Hyper Series, a cloud-based product for medium-sized companies, etc., as the next-generation product for the ERP[10] software Dream21 which the Company has decided to eliminate from its product lineup within five years). Especially since new orders for labor management software have been increasing especially briskly due to the Work-Style Reform, the Company expects to see a double-digit sales growth.

[Figure 22] Factors Expected to Increase Sales in FY 2019 for the Full Year (company plan)
(unit: Y mil)



(Ref) Excerpt from the Company's FY 2018 financial results briefing materials, reworked by Alpha-Win Research Dept.

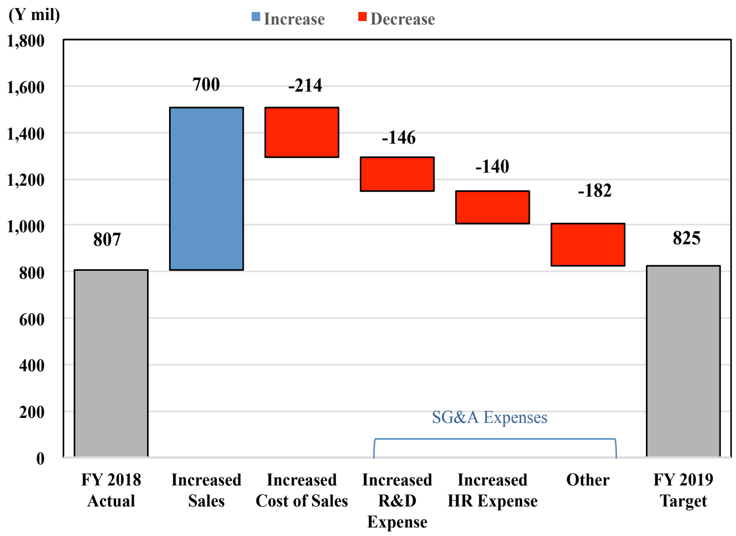
Regarding profit and loss, the gross margin is expected to improve by 1.0 point from 54.5% last H2 to 55.5% this H2 owing to increased sales in the highly profitable cloud business and cost reduction. Consequently, gross profit should also increase by 9.1% YOY. On the other hand, SG&A expenses are expected to increase by 10.4% YOY due to the upfront investment for future growth (+Y146 million in R&D expense and +Y140 million in HR

(10) ERP (integrated operation): stands for Enterprise Resource Planning. Management concept based on the integration and real-time processing of core business information to efficiently optimize the whole. Provided as IT solutions software for integrating enterprise systems.

(11) In the figure showing the factors contributing to YOY change in operating profit, there are some parts where the total of the actual result for H1 (Figure 19) + the target for H2 (Figure 21) does not match the initial full-year forecast (Figure 23). This phenomenon is thought to be caused by the difference in the date or the categorization standard used in the allocation of expenses, etc.

expense planned)[11] (Figure 23). As a result, the Company expects operating margin to slightly worsen from 8.2% last fiscal year to 7.9%, only minimally increasing profit. Extraordinary loss (impairment loss) was recorded last fiscal year, but this fiscal year, extraordinary gain from the sales of investment securities is expected, which is expected to largely improve net profit by 33.5% YOY. For dividend, the Company plans to continue the annual payout of Y31.

[Figure 23] Factors that May Increase/Decrease Operating Profit in FY 2019 (this fiscal year) (company plan) (unit: Y mil)



(Ref) Excerpt from the Company's FY 2018 financial results briefing materials, reworked by Alpha-Win's Research Dept.

- **Alpha-Win Research Dept. revised this FY's forecast for both the sales and profits upward, having judged that they have the potential to go beyond the Company's targets.**

◆ Alpha-Win Research Dept.'s Financial Results Forecast for FY 2019 Full Year

Alpha-Win Research Department has updated the forecast for the financial results of the Company as shown on Figure 24 (P23). We have revised both the sales and the profits slightly upward, having judged that they may excel beyond our previous forecast as well as the Company's forecast.

Regarding the sales forecast for FY 2019 (this fiscal year), the effects of the campaign before consumption tax revision and the new products are hard to judge at this point. We had thought that sales may possibly end up being slightly below the Company's plan, especially for the products. However, sales grew more than expected in both Q1 and Q2; taking into account this H1 situation and the fact that the H2 sales estimate for the solutions are on the conservative side (its sales grew by Y177 million YOY in H1 but the Company's H2 forecast is based on a sales decrease of Y125 million YOY), we have revised the full-year sales forecast upward.

Regarding profit, in the previous report, we had predicted that the Company's target for profit should be achievable and that the actual profit will come out to be just slightly higher than the Company's plan, since the cost control of advertising and other expenses seemed feasible, the profitable subscription-based business was likely to continue to post good results, and the general performance of Japanese companies seemed to be strong. In this report, along with the upward revision for sales, we again revised the profits upward, although by a small amount.

The revisions made by Alpha-Win Research Dept. to the financial results forecast for FY 2019 are as follows (in the order of previous forecast→current forecast): Y10,400 million→Y10,600 million for sales (+8.3% YOY; the Company's estimate is Y10,486 mil; difference of +Y114 mil compared to the Company's estimate), Y850 million→Y875 million for operating profit (in the same order as above: +8.4% YOY; CE Y825 mil; +Y50 mil diff.), Y875 million→Y900 million for recurring profit (+6.9% YOY; CE Y842 mil; +Y58 mil diff.), and Y600 million→Y620 million for net profit for the year (+40.6% YOY; CE Y588 mil; +Y32 mil diff.). Since the current situation of the new contracts for the cloud is still excellent, and the sales of the cloud is increasing at an accelerating speed, we predict that the cloud business will be the growth driver for the entire sales as well as profit.

- **Plans to control cost in order to achieve the goal for full-year profit**

While profit does in fact depend on sales, since the Company is determined to control the expenses while managing the profits, we have judged that large revisions do not need to be made to net profit at this point. Since the Company holds a stable dividend policy, and the forecast for EPS does not have much room for revision, we have judged that dividend will stay at Y31, the same as the Company's plan.

[Figure 24] Financial Results Forecast by Alpha-Win Res. Dept. for This Fiscal Year and Over the Medium Term (unit: Y mil)

	Unit: Y mil, %	FY 2018 AR	FY 2019 CE	FY 2019 Old E	→FY 2019 New E	FY 2020 E	→FY 2020 New E	FY 2021 E	→FY 2021 New E
Sales		9,785	10,486	10,400	10,600	11,000	11,300	11,680	10,500
Category	Products	1,954	2,115	2,080	2,080	2,100	2,150	2,150	1,600
	Goods	988	1,009	1,000	1,000	1,020	1,020	1,030	950
	Maintenance Service	3,109	3,191	3,160	3,120	3,200	3,150	3,250	3,100
	Cloud Service	1,854	2,234	2,230	2,300	2,680	2,800	3,200	3,000
	Other Operating Revenue	1,878	1,932	1,930	2,100	2,000	2,180	2,050	1,900
Gross Margin		54.5%	55.5%	55.8%	55.5%	56.4%	57.0%	56.5%	55.5%
SG&A Expense		4,528	4,997	4,950	5,010	5,300	5,240	5,650	5,000
	(% over sales)	46.3%	47.7%	47.6%	47.3%	48.2%	46.4%	48.4%	47.6%
Operating Profit		807	825	850	875	900	1,200	950	830
	(% over sales)	8.2%	7.9%	8.2%	8.3%	8.2%	10.6%	8.1%	7.9%
Recurring Profit		834	842	875	900	925	1,220	975	850
	(% over sales)	8.5%	8.0%	8.4%	8.5%	8.4%	10.8%	8.3%	8.1%
Net Profit for the Year		441	588	600	620	634	836	669	582
	(% over sales)	4.5%	5.6%	5.8%	5.8%	5.8%	7.4%	5.7%	5.5%
Sales (% YOY growth for all values)		4.5%	7.2%	6.3%	8.3%	5.8%	6.6%	6.2%	-7.1%
Category	Products	-5.6%	8.2%	6.4%	6.4%	1.0%	3.4%	2.4%	-25.6%
	Goods	3.3%	2.1%	1.2%	1.2%	2.0%	2.0%	1.0%	-6.9%
	Maintenance Service	0.4%	2.6%	1.6%	0.4%	1.3%	1.0%	1.6%	-1.6%
	Cloud Service	23.9%	20.5%	20.3%	24.1%	20.2%	21.7%	19.4%	7.1%
	Other Operating Revenue	7.9%	2.9%	2.8%	11.8%	3.6%	3.8%	2.5%	-12.8%
Gross Margin (% YOY diff.)		3.5%	1.0%	1.3%	1.0%	0.6%	1.5%	0.1%	-1.5%
SG&A Expense (% growth)		4.3%	10.4%	9.3%	10.6%	7.1%	4.6%	6.6%	-4.6%
Operating Profit (% growth)		86.8%	2.2%	5.3%	8.4%	5.9%	37.1%	5.6%	-30.8%
Recurring Profit (% growth)		79.9%	0.9%	4.9%	6.9%	5.7%	35.6%	5.4%	-30.3%
Net Profit for the Year (% growth)		174.1%	33.5%	35.9%	40.6%	5.8%	34.8%	5.5%	-30.3%

(Ref) Prepared by Alpha-Win Research Dept. CE = the Company's estimate. E = Alpha-Win Research Dept.'s estimate. AR = actual result.

7. Growth Strategy

◆ Management Indicator Goals and Areas of Focus

In 2012, the Company announced its group goal for management indicators as Y20 billion in sales (actual result for FY 2018 was Y9.8 bil), 2.5% in DOE (same as above, 1.9%), and 80,000 corporate customers of the cloud (11,000 as of the end of Sept. 2018), and has been developing its business in line with this goal. To achieve this goal, five areas of focus have been decided: 1) become No. 1 in the cloud-based enterprise system software market, 2) enhance solutions to provide more than simple functionality, 3) further advance the technology in PCA Cloud, 4) pursue new services, and 5) actively pursue M&As.

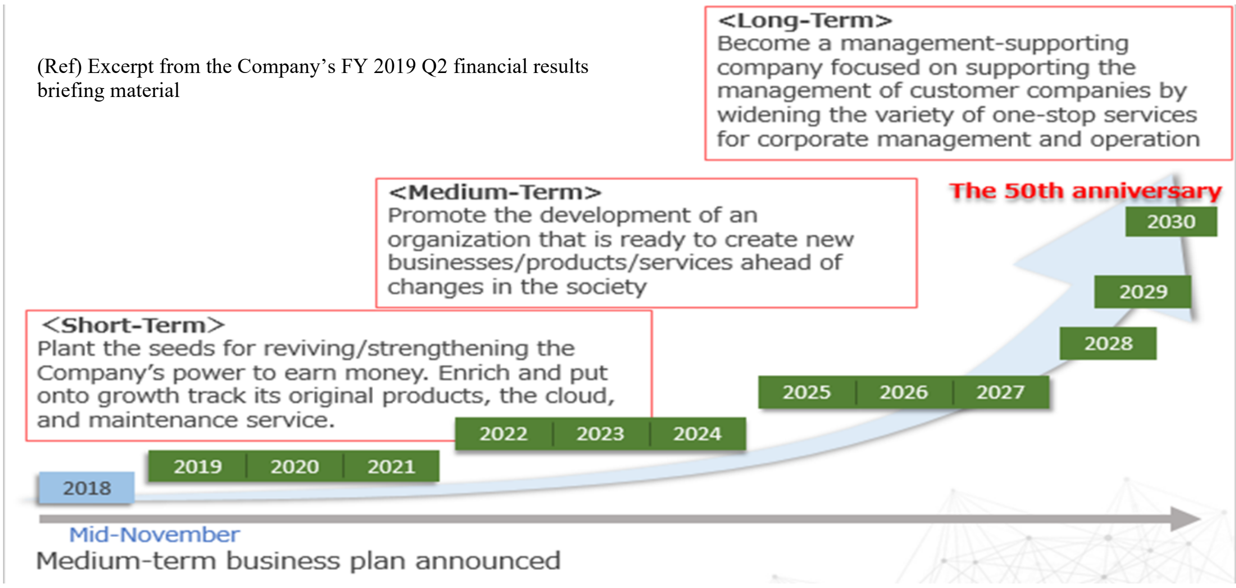
◆ New Medium-to-Long-Term Vision *PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021*

◆ **In November, the new president announced the *PCA Vision 2030: 1st Stage – Medium-Term Business Plan.***

In June 2018, Fumiaki Sato, who was previously executive vice president, was promoted to president and created a new operating framework for the Company. The core concept "PCA4.0" of the medium-to-long-term vision *PCA Vision 2030* was announced in May 2018 and is summarized in Figures 25 and 26. The *Vision* was created in line with the fact that the Company will reach a milestone in the year 2030 as its 50th anniversary. Then, as the next and further step, the Company announced in November the *PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021.*

As a side note, the Company has categorized the 50 years from 1980 to 2030 into four phases of business development as follows: 1980 to 1998 as "PCA1.0," the period of transition from small business computer to PC; 1998 to 2008 as "PCA2.0," the period of flourishment of the internet and client servers; 2008 to 2018 as "PCA3.0," the period of transformation of internet into infrastructure and popularization of the cloud; and 2018 to 2030 as "PCA4.0."

[Figure 25] The New Medium-to-Long-Term Vision *PCA Vision 2030*



[Figure 26] Overview of the Core Concept "PCA4.0" of the Medium-to-Long-Term Vision

PCA4.0 [Becoming a Problem-Solving Service Provider]
1. Service-oriented creation of products
2. Sales partnership enriched by solution proposals
3. Strengthening digital direct marketing
4. Enhancing customer contact and relationship
5. Implementation of strategic recruitment, training, and evaluation programs
6. Development of flexible organizational and operational systems

(Ref) Prepared by Alpha-Win Research Dept. based on an excerpt from the Company's FY 2019 Q2 financial results briefing materials

In the medium-term business plan, the Company described a medium-to-long-term vision that it will continue to be a company that contributes to society as a "management-supporting company" that supports the smooth management and operation of other companies mainly by providing enterprise system software that realizes high-level automatization.

In the recently annouced *PCA Vision 2030: 1st Stage – Medium-Term Business Plan (FY 2020 – FY 2022)*, the Company stated that its basic policy over the medium term is to "conduct structural reforms and develop business platforms so that business will continue to exist and develop stably over the long term." Aiming to become a solution-providing service providor, the Company's plan for the medium term is to focus on creating a firm earnings base and management system for the realization of the medium-to-long-term vision (Figure 27). We should look forward to future executions of specific measures and their effects.

[Figure 27] Basic Strategies and Their Summaries and Measures [*PCA Vision 2030: 1st stage – Medium-Term Business Plan to 2021*]

Basic Strategy	Summary and Measures
I. Build the earnings base for the main businesses	
1. Stengthen and increase the sales of PCA Cloud	Will work on PCA Cloud, for which it has a rich product lineup and over ten years' worth of business know-how. Will secure a firm position in the market and build a strong earnings base as one of its main businesses by focusing on improving brand power, finding new Web-API partners, strengthening service functions, and strengthening cooperation with specialists (professionals) in accouting offices, certified social insurance and labor consultant offices, etc.
2. Strengthen the on-premises business	Engage in strengthening the on-premises business (sales and maintenance of on-premises products) by reviewing the products, service system, etc., based on the users' needs. Will push forward with the transition of on-premises to a subscription-based model, as well as the improvement of maintenance contract repeat rate and operation productivity.
II. Creation of new business opportunities	
1. Find the "seeds" of new products and businesses	Aiming to create a new earnings base for the future. Will accelerate its progress with creating new business opportunities by establishing a division (called "General Innovation Office" for now; will be established in Jan. 2019) tasked with the role to find the seeds of new products and businesses related to new technologies such as AI, big data, RPA, and FinTech.
2. Renew efforts to develop the medium-sized company market	With the new Hyper Series, renew efforts to develop the medium-sized company market, which is an attractive market since it encompasses the upper zone of the Company's major customers and has the capacity to bear large system investment costs.
III. Strengthen the management system to become a highly profitable company	
1. Strengthen the profit management system to support strategic decision-making	Strengthen the profit management system supporting strategic decision-making through autonomous efforts by each internal organizational unit to improve profit, products and services adapted to changes in the business environment, reassessment of the business asset allocation, etc.
2. Adpot performance evaluation indicators that reflect profitability improvement	In addition to conventional management indicators, create and adopt a performance management indicator that would help improve profitability under the Company's business model as the Company tries to strengthen and make more transitions to the subscription-based business model.

(Ref) Prepared by Alpha-Win's Research Dept. based on excerpts from the Company's FY 2019 Q2 financial results briefing materials

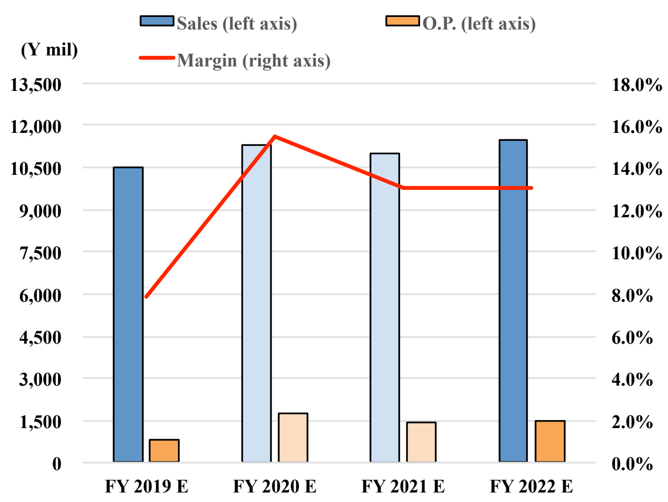
Also, in the annoucement, the Company described the new numerical targets for FY 2022, the final fiscal year of the medium-term plan (the fiscal year ended March 31, 2022), as shown below (targets for each year have not been disclosed; please refer to Figures 28, 29, and 30).

[Figure 28] Targets of the Medium-Term Business Plan

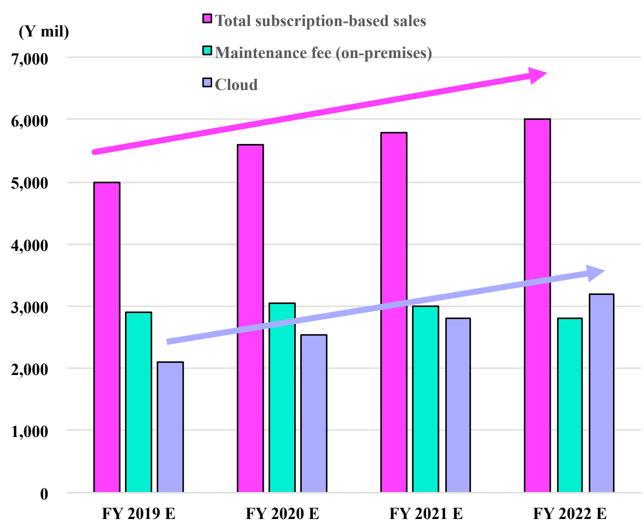
Target Items of the Medium-Term Plan	FY 2022 Target
・Consolidated Sales	≥Y11.5 bil
Of which are sales from subscription-based businesses (maintenance/cloud)	Achieve Y6 bil
・Consolidated Operating Profit	≥Y1.5 bil
・Consolidated Operating Margin	≥10%

(Ref) Figures 28–30 were prepared by Alpha-Win Research Dept. based on excerpts from the Company's FY 2019 Q2 financial results briefing materials

[Figure 29] Financial Results Forecast in the Medium-Term Business Plan (consolidated)



[Figure 30] Sales Forecast for the Subscription-Based Businesses



◆ Alpha-Win Research Dept.'s Financial Results Forecast for the Medium Term

- **Alpha-Win Res. Dept. expects the subscription-based businesses to be the growth driver and the annual profit growth rate to be 5-6% over the medium term when the figures are evened out. However, for FY 2020 (next FY), both sales and profit were largely revised up in expectation of event-driven high demand. On the contrary, in expectation of a recoil from that demand, the forecast for FY 2021 (the FY after the next) was revised to expect decreased sales and profit.**

Alpha-Win Research Dept. reviewed the financial results forecast for the three years leading to FY 2021 (described previously on page 23, Figure 24). There are several uncertain factors in the future, such as the change in consumption tax, change in the name of the era, high demand caused by the termination of the Windows 7 support and the recoil that will follow, new tax laws or changes to the tax system, progress in new product development, changing balance in the competition with major competitors, and the progress with the M&A strategy. However, since the subscription-based businesses (the cloud and the maintenance services) should grow, for the meantime, sales and profit are expected to continuously increase when looking at figures that are evened out excluding the effect of the event-driven high demand.

In FY 2014, there was high demand driven by two events (termination of Windows XP support and consumption tax revision from 5% to 8%), leading to a siginificant increase in sales and profit. In making the forecast, we estimated the upcoming event-driven high demand to raise FY 2020's sales by 500 to 600 million yen and, on the contrary, reduce FY 2021's sales by 600 to 800 million yen in recoil (anticipated frontloaded demand during the current fiscal year was also taken into consideration). We used these estimates as the basis for our forecast. Furthermore, for the estimated annual sales growth rate for each category (by sales type) for FY 2020 and FY 2021, we changed the estimate for the maintenance service from about 1.5% in the previous forecast to 0.5%, but kept it the same at about 20% for the cloud service and about 2% for each of the remaining three categories (by sales type) (evened-out figures excluding the effect of the event-driven high demand). The fraction of gross margin contributed by each sales type was not largely altered, but instead we focused our analysis on the effect of improved product mix, such as the cloud, on the gross margin. General and administrative expenses are predicted to increase annually by 6-7% (when the figures are evened out) mostly due to increased R&D, advertising, and HR expenses since the Company is in an investment phase, including business structure reinforcement in preparation for future growth, new product development, and technology research (virtualization technology, AI, Web API, and FinTech-linked technology). No extraordinary gain or loss is expected.

As a result, we revised the FY 2020 financial results forecast significantly upward; we expect increased sales, increased profit, and consecutive record-high for sales. Oppositely, we revised down the FY 2021 forecast, expecting decreased sales and profit. However, after FY 2022 when the effect of the recoil from the event-driven high demand would have withered away, we believe that the Company will begin to continuously increase sales and profit, supported by its subscription-based businesses.

Over the medium to long term, we expect that both sales and profit will grow annually by about 6%, when looking at evened-out figures excluding the effect of the event-driven high demand. Since the Company's business model is characterized by a high marginal profit ratio, the profit growth rate is actually supposed to be greater than the sales growth rate, but we predict that the growth will be stable due to the upfront investment cost described above.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed on Figure 31.

[Figure 31] SWOT Analysis

Strength	・Brand recognition and trust built up over long years (major specialized player in the enterprise system software market for small/medium-sized companies) ・Firm financial standing (debtless management) ・Growth of a subscription-based business capable of generating stable revenue ・ Strong and diversified customer base (200,000 companies total as active users) ・Taking a lead in the market with cloud services (No. 1 in enterprise systems for small/medium-sized companies); experience (number of customers / number of years) ・ High barrier to market entry ・Very experienced call center staff and engineers ・Rich product lineup; provides products as on-premises and by cloud ・ Sales network (13 sales offices in Japan; 2,000 partnered companies)
Weakness	・Low margins ・Business results susceptible to revisions related to accounting and tax laws, etc. (consumption tax, change in the name of the era, etc.) ・Large improvements still needed in maintenance service with only around 50% of users subscribing to the service ・Highly competitive market ・Absence of a major, next-generation, growth-driving product/service ・Domestically oriented; overseas development difficult
Opportunity	・Increased demand from lack of manpower and need of efficient operation; Work-Style Reform ・Potential for cloud services to increase users; development potential (esp. for medium- to small-sized companies) ・New products, new services, and technology innovations ・Revisions related to accounting and tax laws, etc.
Threat	・Emergence of an alternative with the popularization of advanced AI technology, lagged product development, defects in products, etc. ・Termination risk of contracts, etc. ・Information leakage ・Rise in HR and development costs

(Ref) Prepared by Alpha-Win Research Dept.

Describing the strengths listed in Figure 31 in more detail, the Company is well known due to its long years of practice in the industry and the trust that it has built up, and is especially strong in certain areas of business such as accounting software for small/medium-sized companies and public benefit corporations. Its customers also have high loyalty, as there is little incentive to frequently change enterprise system software. Additionally, the Company has been developing a subscription-based business model with high continuity and stability, providing maintenance support, the cloud, and version upgrades to its customers.

◆ **Increase in the proportion of users signing a contract for the maintenance service will create a large potential for improved earnings capacity.**

On the other hand, looking at the weaknesses in more detail, the margins have been gradually decreasing over the long term. Although operating margin has begun to improve over the past few years, it was 8.2% last fiscal year, still low compared to its major listed competitors. This may be explained by how the proportion of users signing a contract for the profitable maintenance service is low for the Company compared to its competitors and by how the Company has not been developing major, long-lasting new products (not being able to benefit from the advantage of scale).

However, if the Company could dig up hidden demand from its growth-driving, cloud-related market with its price advantage, and if it could improve the on-premises business by increasing the proportion of users who subscribe to the maintenance service through strategies such as direct contracts with customers, then there is a potential for the Company to largely improve profitability. For instance, even just by raising the proportion of users who sign a contract for the maintenance service from the current 50% (approx.) to the same level as OBC, at about 80%, or as MJS, at nearly 100%, the gross margin would theoretically improve from 54.5% last fiscal year to about 59% and 62%, respectively. This improvement would help largely increase sales and profit.

As for opportunity and threat, business volatility would generally become greater in the case of high demand driven by events such as those related to consumption tax revisions and Work-Style Reforms. Also, we should keep note of the progress of major competitors in catching up with the Company in the cloud-service market, in which the Company currently takes a lead, and in their development of new products and services.

◆ Shareholder Return and Shareholder Benefit Program

The Company's basic policy is to stably, constantly pay out dividend while improving the ratio of net profit for the year to shareholders' equity (ROE) under effective management. In returning profit to its shareholders, its policy is to determine the level of dividend to be paid based on a comprehensive analysis of elements such as its financial results and dividend payout ratio.

- **The Company's goal for dividend payout ratio is 30% and its goal for DOE is 2.5%. It provides a stable dividend of Y31 per year. Dividend is expected to keep increasing over the long term.**

Ever since the first public offering of the Company's stock was made, ordinary dividend has not been decreased, and has been gradually increasing over the long term with several years of no change in between (Figure 32).

Excluding commemorative dividends, ordinary dividend since FY 2011 has been Y31 per share per year. Commemorative dividend was paid out only in FY 2014 in celebration of the change in listing from the Second to the First Section of the TSE in December 2014, adding Y10 to the ordinary dividend of Y31 to an annual total of Y41 per share. Even in FY 2015 and FY 2016 when a net loss was recorded, the Y31/year dividend was maintained in line with the Company's stable dividend policy.

While the Company believes that the ideal level for the dividend payout ratio is around 30%, the actual dividend payout ratio was 48.2% in FY 2018 and is expected to be 36.1% in FY 2019 (based on the Company's estimate; 35.4% based on Alpha-Win Research Dept.'s). When calculated based on a stock price of Y2,163 (closing price as of the end of December 14, 2018), the dividend yield comes out to be 1.48%. As for DOE, one of the major KPIs (Key Performance Indicators) for the Company, the actual value for FY 2018 was 1.9% (the Company's goal is 2.5%).

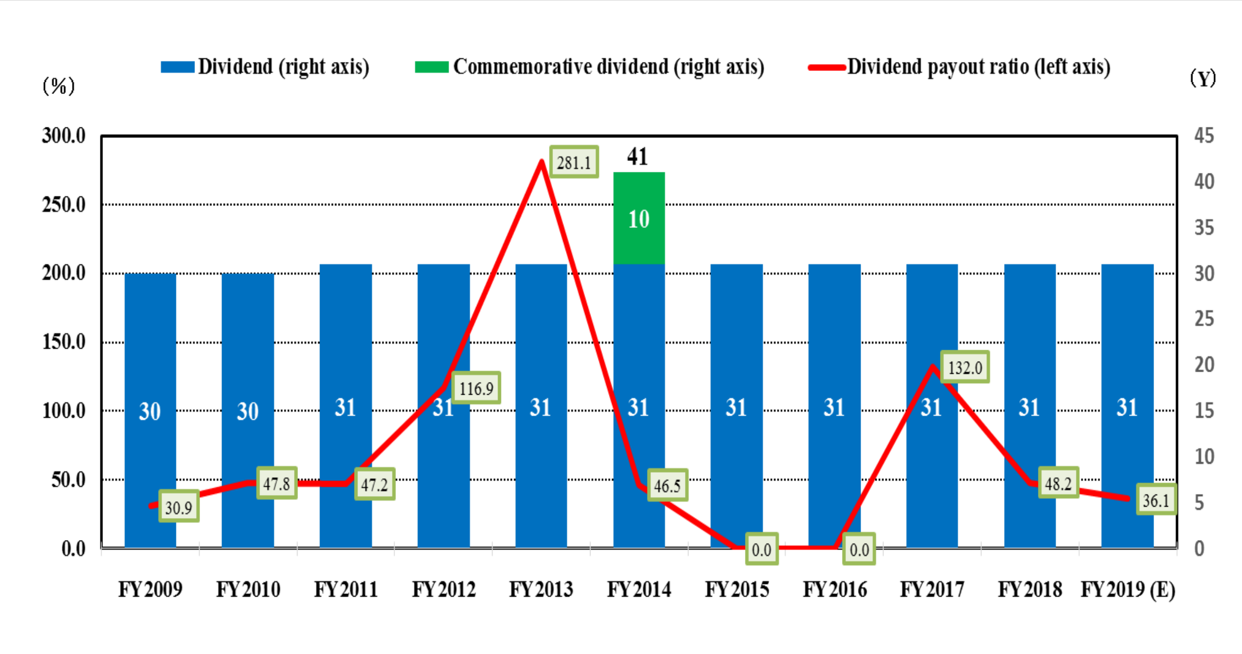
Taking into consideration the current dividend payout ratio, Alpha-Win Research Dept. expects that the ordinary dividend of Y31 will be continued after FY 2018 for a while. Over the medium term, when the investment phase ends and profitability increases considerably, dividend may increase.

- **Annual net yield including the shareholder benefit program is about 2.5%.**

A shareholder benefit program was started in 2013, and its partial revision was annouced in July 2017 (Figure 33). Spcifically, a Quo Card is granted to shareholders based on the number of shares held at the end of the March of every year. For instance, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card; assuming that the stock price is Y2,079, then the annual net yield for a shareholder with 100 shares is about 2.5% including the ordinary dividend of Y31 and the shareholder benefit (under the same condition, the annual net yield for OBC is about 1.1%, and for MJS it is about 1.2% which is the same as the dividend payout ratio since MJS has no shareholder benefit program).

The Company's financial standing is also great with essentially no debt. We should keep an eye out for stock splits as well as additional share repurchasing in terms of total return ratio. Stock splits have not been conducted since the 1-to-1.3 stock split in May 2000.

[Figure 32] Transition in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimates (E) are the Company and Alpha-Win's estimates.

[Figure 33] Shareholder Benefit Program and Net Yield

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (Quo Card: Y)	Dividend: Y	Net Yield: %
100	300	2,000	31	2.45
300	500	3,000	31	1.97
500		5,000	31	1.97

Net yield = (dividend + benefit value) / (stock price) was calculated for the minimal amount of stock owned in each range
Stock price assumed to be at: Y2,079

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's data

◆ Factors that May Affect Stock Price

- **Has been outperforming TOPIX for the past one year. Defensive and stable growth stock.**

The Company's stock price and relative stock price compared to TOPIX for the past two years are described in the summary section (page 2, Figure C). Since March 2017, the Company's stock price, although with some swaying, has generally been rising along with the index. Stock price relative to TOPIX has been rising since around July of 2017 until now. Stock price has especially been increasing since the announcement of the interim financial results, reaching an annual-high on December 3rd. We hypothesize that stock price increased because of the anticipated greater-than-expected results for this fiscal year, as well as expectations for large increases in sales and profit during next fiscal year due to the event-driven high demand, and because the newly announced medium-to-long-term business plan and the direction of the Company's business reform may have given good impressions. The stock price may also reflect the fact that, following the appreciation of the yen and the implementation of trade protection, the Company has become more recognized as a domestic stock with stable business results. Another factor may be that the market is beginning to reevaluate the Company's competitiveness and high potential as seen from how it was the first to provide packaged enterprise system software on the cloud.

- **Cheaper stock value than its competitors**

A comparison of major valuation indicators was made between the Company, the market average, and its competitors (Figure 34). In comparison with the average of First Section of the TSE, the Company's P/E is approximately 24.2 (based on EPS estimated by the Company for FY 2019; according to Alpha-Win Research Dept.'s prediction, 23.0 for this fiscal year and 17.0 for next fiscal year), exceeding the First Section's average of about 13.4. While the Company's dividend yield, at 1.5%, is slightly below average (the simple average is 1.9%; the weighted average is 2.3%), the Company's P/B is 1.2, which is about same as the First Section's average of 1.17 (closing price as of December 14). Meanwhile, compared to its competitors (4733 Obic Business Consultants and 9928 Miroku Jyoho Service), the numbers for the Company are low regarding most indicators, giving it an undervalued impression (Figure 34). The Company's EV/EBITDA value is especially relatively low since it has no debt, has large amounts of cash and deposits, and has actively amortized its assets last fiscal year.

- **Going forward, the key points of interest are this FY's performance, development of specific measures as a part of the basic strategies of the medium-term business plan, the execution of such measures, and their effects.**

Going forward, the following events or factors may have an impact on stock price.

The first and short-term points of interest are the contents of the Q3 financial results that are scheduled to be announced around February of 2019 and whether revisions will be made to this fiscal year's financial results forecast (possible upward revision). This announcement is especially important since it will be made at the time of year when we can make a prediction for Q4 (January through March), during which a large proportion of the annual sales and profits is recorded.

Over the medium term, the Company plans to execute growth strategies including the expansion of business domains, M&A, and alliance, improve its management system from sales-based to profit-based management, and make a transition to a management system focused on asset efficiency. If progress is made for these activities, they may positively affect the stock price. We should keep an eye out for the future execution, progress, and effects of the specific measures for the three basic strategies of the medium-to-long-term vision.

Additionally, other factors that may affect stock price include the rate of increase in the number of contracts for the cloud service, the share of sales of the subscription-based businesses, the improvement status of profit margins, the sales progress of new products, the progress in increasing the proportion of users who subscribe to the maintenance service, dividend increase, stock-splits, and progress in the transition of the on-premises to the subscription-based business model (a monthly-subscription-based business). We should continue to watch out for these factors.

[Figure 34] Comparison of Valuation Indicators with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: non-consolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 12/14 closing)	2,079	9,730	2,489
Market Cap (Y mil)	16,008	392,625	86,633
P/E (price-to-earnings ratio)	24.2	39.6	23.6
P/B (price-to-book ratio)	1.3	3.5	4.8
Dividend Yield (%)	1.5	0.8	1.2
EV/EBITDA	5.7	30.4	16.4
P/S (price-to-sales ratio)	1.5	14.3	2.8

Market cap = shares outstanding x market stock price [at 12/14 closing]

EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)

P/S = market cap / sales [the Company's estimate for FY 2019]

The Company's estimated EPS for FY 2019 used in all P/E calculations

(Ref) Prepared by Alpha-Win Research Dept. based on information including those from the securities report and the financial results summary

9. Interview with the President

◆ Q&A

On December 7, 2018, we interviewed the Company's new president Fumiaki Sato.

1. Please tell us your history before joining the Company.
   - I was born in Tokyo in 1963, and I am currently 55 years old. Although I sometimes moved to other places because of my parent's transfer at work, I spent the most time in Tokyo. After graduating from the Faculty of Law at Chuo University, I joined Kinki Nippon Tourist.

2. Please tell us why you joined the Company and your experiences after joining.
   - Since my father-in-law was the founder of the Company, I became acquainted with it and joined it in 2003. I did not have any experience at an IT company or as a programmer and was placed in the management department. There, I experienced jobs such as human resources, general affairs, accounting, and management (served as general manager and head of division for each; took position as director, senior vice president, and Head of Management Department in 2011; became vice president in 2017; and became president in June 2018). Four years ago, when the founder passed away, he asked me to look after the Company for him. Since the previous president Mr. Mizutani had long intended to leave his job at age 60, I took position as president after him.

3. Are there any projects or jobs at PCA that left a strong impression on you?
   - For jobs, I remember well about how I dealt with the revised Company Act when I was the general manager of the General Affairs Division. I also remember how my experiences at my previous workplace helped me plan and carry out the company trip.

4. Do you have a personal creed or motto? Please tell us.
   - Just as there are "eight million spirits" in Japan (Shintoism: how everything has a spirit), I believe that everything and everyone should be respected and we should put ourselves in someone else's shoes (regarding people) when doing anything. I receive stimuli from all people that I meet, and I appreciate and respect all people whom I meet.

5. What do you do for your hobby on weekends or on weekdays outside of working hours?
   - I like playing the piano or looking at the ocean and enjoying the feeling of "nothingness."

6. Please tell us your ambitions for the future as the Company's president.
   - This fiscal year (FY 2019) was our company's 39th anniversary. Until now, we had steadily conducted business under the business model of developing and selling IT packaged software that fit the business conditions back then. However, in recent years, the IT business environment has changed, so the conventional business model no longer fits the trend, and it is becoming harder to predict the future. Because we have had success, it can be hard to change, but in response to the changes, I believe that it is my role to change the Company's structure and mission and adopt a new model that allows for continuous growth. It has been half a year since I became president, but I have had many discussions inside the Company, and I think I have had success in creating the awareness for the topic.

- I'm not sure if the packaged enterprise system software business will continue to exist, but even if our products change, we will continue to support the corporate management of our customers, and aspire to become the "management-supporting company" as declared in the new medium-to-long-term vision, or *VISION 2030*.

7. How do you evaluate PCA's strengths (appeals) and challenges (areas needing improvement)?

- Our strength is that we have been in this business for 38 years during which we have gained trust from our users and business partners. We owe this success to the efforts of our front-line staff, so our front-line skills are a great strength of ours. However, our front-line skills had been much dependent on the individual (person), so we believe that we need to improve our front-line skills more as a company in the future.

8. How do you think of your company's rivals or about your company's advantages over them?

- Our biggest rival is Obic Business Consultants (OBC; No. 1 share in the industry). Until the network version (Windows) became popular, we were greater in size than OBC, but because of the difference in the sales strategy, we ended up losing our number-one position. Currently, we are focused on being customer-first, as in gaining trust from our current and new customers, rather than gaining back market shares. We believe that if we continue to build up trust and experience by improving our sales power, product power, service power, and after-sales services (call center, etc.), the results will come along. We always keep in mind that we should not lose track of what is truly important, which is our customer-first policy, (by chasing after market shares too much).
- About our company's competitive advantage, we are hoping to emphasize our uniqueness and our new products and services such as the cloud service which we have started providing 11 years ahead of other companies.

9. Please tell us the current performance and situation and the prospect for achieving this fiscal year's financial targets.

- This fiscal year (FY 2019) and next fiscal year (FY 2020), we are expecting an especially high demand due to the increase in consumption tax (from 8% to 10%), the termination of Windows 7 support, and the change in the name of the era. These should become positive factors for us (especially next fiscal year). However, last time that there were two events creating especially high demand, which were the increase in consumption tax (from 5% to 8%) and the termination of Windows XP support, after the effect of those event-driven high demand died down, there was a recoil, causing decreased sales and a net loss. We believe that there will again be a recoil after the upcoming event-driven high demand, and how we will deal with this recoil is one of our current challenges. We believe that one strategy is to make our business more subscription-based. The current share of subscription-based businesses in the sales ([sales of cloud + sales of maintenance service] / [total sales]) is a little greater than 50% (actual ratio for H1 is 54.6%), but we hope to raise this ratio to 60% in three years.

10. What are your thoughts on the shareholder return policy for the future?

- Currently, our dividend is 31 yen per share per year, so the dividend payout ratio is greater than our goal of 30%. We believe that the ideal level for dividend is one-third of net profit. We hope to increase our profit and continue to increase dividend in the future.
- We may use our treasury shares for the (existing) director remuneration plan or a new employee share remuneration plan, as some possibilities.

11. Please tell us your thoughts on business strategies (M&As, alliances, etc.).

➢ We have been looking at M&A as one way to develop our business, so although we currently do not have any debt, we may borrow money in the future. Also, for example, looking at new businesses, we are thinking about something that is like a business consultant, which doesn't mean that we will actually do consulting, but it means we will start a supporting business that includes providing human resources support and is directly linked to management. From "things" (functions and ancillary services), we would like to provide "deeds" (values and results).

12. If you have any messages for the investors and shareholders, please tell us.

➢ We would like to keep up with the trust (from our customers) that we have gained over the 38 years since the foundation of our company and aim for an even stronger relationship. We will continue to conduct business in such a way that we can gain trust from not just our shareholders but also investors whom we ask to buy our company's shares.

End of Interview

* *

Disclaimers